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Current History

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In this concluding issue of a three-issue symposium on poverty and social welfare in America, eight articles explore the weaknesses and workings of our present system and point out possible new approaches for the future. Our first article points out that "it is a mystery that we should continue to fund a system of programs which often leaves the recipient without sufficient aid, a system which transfers income from low and middle income families to the poor. Welfare reform is an obvious necessity."

Weaknesses in Our Welfare Program

BY KEITH E. BERNARD
Assistant Professor of Economics, California State College

AMERICA'S WELFARE SYSTEM is a failure that grows worse every day."[1] In this single sentence President Richard Nixon expressed the dissatisfaction of an entire nation with a number of social programs. Criticisms of the "welfare mess" can be heard from such diverse sources as the most liberal element of our population and the John Birch Society. While different groups attack our welfare system for different reasons, all point convincingly to the failings of the system.

Initiated as the first coordinated federal anti-poverty program, the current welfare system came into being with New Deal legislation. In conjunction with the Social Security system for the elderly and unemployment compensation for the family whose principal wage earner was temporarily out of work, public assistance (welfare) was intended to provide for those who were either unable to work or who did not meet the qualifications of the other programs. Over time, these programs, which were designed as a residual element under the Social Security Act of 1935, have grown in both scale and cost. Table 1 shows the number of people participating in these programs in selected years.

All income maintenance programs which fall under the category of "welfare" are designed to alleviate poverty. Ideally, aggregate government policies affecting the level and rate of federal spending and taxation (fiscal policy) along with government policies relating to the expansion of the money supply and level of interest rates (monetary policy) would be sufficient to guarantee an economic climate in which no American would be forced to live in conditions of poverty. This is, in fact, the position taken by many critics of anti-poverty programs who feel that while government may have the responsibility to generate an expanding economy, this condition is sufficient to eliminate poverty eventually.[2] Yet in 1970, more than 25 million people in this country had incomes below the "poverty level"[3] and, in 1971, approximately one-fourth of all Americans aged 65 or over were considered "poor." Individual characteristics other than age (e.g., health, education and race) also affect a person's employability and influence his or her ability to earn an income above the poverty level.[4]

While there are significant weaknesses in our cur-

[1] Message of the President of the United States Relative to Welfare Reform, H. Doc. 91-146, 91 Cong. 1 sess. (1969), p. 2. Text in *Congressional Record,* daily ed., August 11, 1969, p. 559582.

[2] Lowell Galloway, an economist at Ohio University, arrived at this conclusion and on that basis argued that no "welfare" programs were necessary. See Lowell Galloway, "The Foundations of the War on Poverty," *American Economic Review,* May, 1965.

[3] However, just more than one-half of these people (14 million) received welfare payments.

[4] For an excellent treatment of the factors determining poverty see Bradley Schiller, *The Economics of Poverty and Discrimination* (Englewood Cliffs: Prentice Hall, 1972). See also the articles in *Current History,* June, 1973.

TABLE 1

Table 1—Number of recipients of public assistance money payments by program, for selected years.

Year and month		Old Age Assistance	Aid to Families with Dependent Children	Aid to the Blind	Aid to the Permanently and Totally Disabled	General Assistance
1936:	June	652,000	522,000	43,000	—	4,680,000
1940:	June	1,970,000	1,141,000	71,600	—	4,038,000
1945:	June	2,038,000	872,000	71,100	—	427,000
1950:	June	2,790,000	2,235,000	95,400	—	1,105,000
1955:	June	2,535,000	2,238,000	104,000	234,000	718,000
1960:	June	2,331,000	3,015,000	107,000	358,000	969,000
1965:	June	2,111,000	4,306,000	94,400	536,000	664,000
1970:	June	2,050,000	8,292,000	80,100	878,000	930,000

rent welfare system, a great deal of the criticism leveled against the program is due to misconceptions about the recipients of welfare. It is commonly assumed that the welfare rolls are filled with people who, though able, have no desire to work. However, a study made by the United States Department of Health, Education and Welfare[5] points out that less than one per cent of welfare recipients are able-bodied males. In fact, children comprise over one-half (50.3 per cent) of the welfare rolls. Of the remainder, 24 per cent receive funds under the old age assistance (OAA) program; 13 per cent are mothers receiving money under Aid to Families with Dependent Children (AFDC); 8 per cent are considered permanently and totally disabled (APTD); and 2.9 per cent are parents deemed unable to work. Women on welfare are often accused of having many illegitimate children in order to increase their monthly payments. This charge is unsubstantiated by statistics, which show that two-thirds of all AFDC families have three or fewer children.

It is the general impression of the public that welfare recipients are mostly black. However, HEW reported that in 1970 blacks accounted for only 39 per cent of the people receiving welfare payments. American Indians accounted for 6 per cent of the recipients, and the remaining 55 per cent were white.[6]

"Welfare" is commonly regarded as a single, large effort to eliminate poverty. It is, in fact, a system of five separate programs. Four of these programs attempt to eradicate poverty associated with specific groups in our society. General assistance is intended to deal with those not eligible for any of the other programs. Table 2 lists the programs and basic data pertaining to each.

The dominance of the AFDC program, both in terms of number of recipients and total expenditure, can easily be seen from Table 2. Public scrutiny focuses on this particular program, and the term "welfare mess" applies exclusively to the AFDC program. The weaknesses of the welfare system, then, tend to be synonymous with the weaknesses of AFDC. In this light, a detailed examination of AFDC is in order. Three major weaknesses of the AFDC program can be identified: 1) the effect on family stability; 2) the impact on work incentives; 3) the level of benefits.

First of all, does the welfare system influence the family structure of recipients? The answer seems to be a resounding yes. A study of AFDC families reveals that, in 1970, fully three-fourth of the fathers had deserted their families.[7] The conditions necessary to receive welfare payments tend to cause the dissolution of families: in order for a household to qualify for benefits the father must be either absent or incapacitated.[8] As the program is set up only for the unemployable poor, the effect of this stipulation is that many poor working fathers "desert" their families so that their wives and children may be eligible for AFDC payments which may exceed the fathers' income. Consider that in 1968 1.3 million family heads worked 35 hours per week, 50 weeks annually, and still earned less than the poverty level of income ($3,500 for a family of four). Clearly, this weakness of "the system" potentially affects a very large number of people. In addition to encouraging "desertion," current regulations tend to discourage the formation of conventional family units. If an AFDC recipient remarries, all assistance to her and to her children ceases. For recipients of Social Security or Veterans' Assistance Pension benefits, however, children continue to receive benefits after the mother remarries.

Second, for those parents (mostly women) eligible for AFDC payments, the program requirements provide a disincentive for seeking employment. Until 1968, for each dollar of income earned by an AFDC recipient, the payment from the program was reduced

[5] U.S. Department of Health, Education and Welfare, "Estimated Employability of Recipients of Public Assistance Money Payments," July, 1968.

[6] Other "myths" about the welfare programs and the people involved can be found in "Six Myths about Welfare," published by the National Welfare Rights Organization.

[7] The figure was 67 per cent in 1961; a definite worsening trend seems to exist.

[8] There is a program, AFDC-UF, which funds families with unemployed fathers present, but the extremely stringent requirements have kept the size of the program to a minimum. In 1970, only about 1.5 per cent of AFDC payments were allocated under AFDC-UF.

TABLE 2
Welfare Programs, December, 1970

Program	*Recipients*	*Payment per Recipient* (monthly)	*Total Annual Payment* (in millions)
1. Old Age Assistance	2,081,000	$ 77.60	$1,938
2. Aid to the Blind	81,000	104.34	101
3. Aid to Permanently and Totally Disabled	933,000	96.55	1,038
4. Aid to Families with Dependent Children	9,657,000	45.50	5,735
5. General Assistance	1,062,000	57.75	736
	13,814,000		$9,548

by one dollar. In effect, the recipient was subjected to a 100 per cent tax on any earned income—hardly an incentive to seek employment. In February, 1968, Congress amended the Social Security Act and set up the Work Incentive Program (WIN). This program lowered the tax rate to 67 per cent of any income over $30 per month, the first $30 being tax free. While this is a step in the right direction, the tax rate is still extremely high.

There is, in addition, a negative side to the WIN program. In order to remain eligible for payments, recipients of AFDC must accept any work provided by their case workers. Exceptions are made only if a recipient is incapacitated or cannot work because of problems in finding adequate child care. The administration of WIN, including decisions about exceptions, are in the hands of the states, and variations on enforcement tend to be significant. An AFDC recipient in one state may be forced to work; a recipient in identical circumstances in another state may not.

The third principal weakness in the AFDC program involves the level of benefits paid. Table 2 makes it clear that the "average" AFDC recipient receives $45.50 per month or $2,200 annually for a family of four. This figure, however, is a national average and is very misleading.

> Though the federal government contributes more than one-half of the total cost of welfare programs under the Social Security Act, it delegates administration of these programs to the states, within broad federal guidelines. Most importantly, the states determine eligibility standards and the level of benefits.[9]

State differentials are very large. A family of four in New York receives $3,500 annually in welfare payments; a family in similar circumstances in Mississippi is entitled to only $550. Disparities of this nature are often considered an important cause of the heavy migration of welfare families from the rural south to the industrial states of the north. While some of the differences in benefit levels reflect cost-of-living differences between the North and the South, they also reflect different attitudes toward AFDC recipients.

Another aspect of the level of benefits demonstrates what is possibly the principal weakness of welfare from the point of view of a recipient: the relation between the level of benefits and the cost of providing a minimally adequate standard of living in each state.[10] In 1972, the cost standards for a family of four varied from $197 to $400 per month. The maximum level of benefits provided met the state's cost standards in only 13 states. In 21 other states, the maximum benefits established were $18 to $151 less than the states' cost standards. The national median maximum benefit level for a family of four was $227 per month while the median cost standard was $286.

In 1967, the congressional amendment to the Social Security Act required each state to make an adjustment in the cost standards to allow for increases in the general price level. Prior to 1967, there was no relationship between changes in cost standards and changes in the cost of living. However, states which were not able to pay the full amount were permitted to reduce their cost standards. Between January, 1967, and July, 1971, the number of states meeting 100 per cent of the cost standard declined from 22 to 13. During this period, median cost increased by 33 per cent (from $215 to $286 per month) and median benefits increased 24.7 per cent (from $182 to $227 monthly). In real terms, therefore, the level of benefits relative to the cost standard declined over that four-year period.

Clearly, the level of benefits is not set up to alleviate poverty. It actually perpetuates poverty for a segment of our population. In July, 1971, the maximum payment in twelve states for a family of four was less

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[9] Sar Levitan, *Programs to Aid the Poor in the 70's* (Baltimore: Johns Hopkins Press, 1969), p. 22.
[10] It should be noted that each state independently computes its minimum cost standards.

"*The history of the social security system since its inception is in part the history of an ideological shift in emphasis from an insurance program to a social welfare program.*"

Social Security: History and Prospects

By June Axinn
Associate Professor of Social Work, Univesrity of Pennsylvania

Social security is the major public program which provides income to the aged and the disabled in the United States. It is a federal program of economic security for families who cannot be supported through the normal mechanism of labor market participation because the wage earner in the family either 1) is old and has therefore retired from work, 2) is permanently disabled and is therefore unable to work, or 3) has died. Since 1966, the program, Old Age, Survivors, Disability and Health Insurance (OASDHI), has also provided medical and hospital insurance for the aged, in addition to income transfers. It is one of the largest and most successful insurance programs in the world.

Last year, the system disbursed over $50 billion in monthly benefits and medical and hospital insurance payments to 28 million people. Over 13 per cent of the population, more than one in every eight Americans, received social security checks. Ninety-two per cent of all people over 65 are eligible for benefits and an even larger percentage of women and children are protected against the premature death of the family breadwinner. Social security serves both as the basic source of continuity in lifetime income for working families and as the major anti-poverty program in the nation.

Social insurance is now the sole source of income of half its beneficiaries! In 1940, transfer payments of $35 million accounted for less than one-half of one per cent of personal income when payments started and represented less than four per cent of all federal budget expenditures; by 1972, payments accounted for over five per cent of personal income and represented over one-fifth of all federal outlays.

Social security is a contributory system. Benefit payments are made from trust funds whose assets are derived largely from tax payments assessed on workers and employers.[1] While personal income from social security payments to beneficiaries amounted to five per cent of all personal income in 1972, the personal income of other individuals was directly reduced by almost $36 billion in social insurance contributions. And just as benefits have become an increasingly important part of the federal government's expenditures, social insurance contributions have come to play an equally important role in the pattern of government tax receipts. The program thus involves a transfer of income from those who are currently employed to those who have left employment.

OASDHI is one program in a network of public income transfer mechanisms designed to protect Americans against some of the risks of an industrial society. There are other public retirement and disability programs. For federal employees there are the Civil Service system which was established in 1920, a variety of programs for other civilians like judicial employees and foreign service workers, a program for career military personnel, and a veterans' pension program. There are state and local government employee plans. The railroad retirement system was set up at the same time as the social insurance system.

To help maintain an income floor during periods of temporary unemployment there is a state-administered unemployment insurance program. State workmen's compensation and temporary disability programs are also efforts to meet the problem of temporary loss of income from employment. A combined federal, state and local government public assistance program to provide support for needy aged and disabled adults and dependent children who are not eligible for benefits under the employment-related programs was established in 1935 in the same act that created the insurance programs. Most but not all of these transfer plans are contributory and compulsory; some but not all are coordinated with social security; some but not all provide for dual entitlement of workers to payment benefits. There are some overlaps and there are some important gaps in the network, but in general, OASDHI is the mainstay of a public effort to meet the economic needs of Americans when they cannot work.

[1] In addition to contribution income, the social security trust funds earn interest on investments. Last year this amounted to about $2 billion.

THE HISTORY OF SOCIAL SECURITY

The Social Security Act of 1935 was a response to the problems of the aged population and the immediate crisis of the depression and poverty. The economic catastrophe of the 1930's led to public recognition that Americans lived in an urban, industrial, monetized society in which there was no longer the inherent security of the family farm. Nor was there an extended family available to support the growing numbers of older people in the population; where there were adult children, their incomes were often inadequate and their savings depleted. The widespread and expanded unemployment gave dramatic force to the arguments for designing a program of income stabilization to be built into the structure of the economy, a permanent public institution to provide regular income to those who had left the labor force and who, it was now clear, could not be expected to provide effectively for their own retirement.

The adoption of a social insurance system in the United States, 45 years after it had been introduced by Otto von Bismarck in Germany, was an acknowledgement that social welfare was a legitimate function of modern government and a recognition that for the most part neither individuals nor their families, nor the ordinary operations of the market economy were adequate to meet all needs. Some needs could be assumed to be universal and were to be met communally.

The original program established under the Social Security Act of 1935 was a retirement program for employees in private industry and commerce.[2] It covered about 60 per cent of the civilian labor force. The objective of the program, of the establishment of the Old Age Reserve Account, as it was first called, was to provide freedom from economic want and continuation of a stable income to people who, because of age, retired from the labor market, and to provide this income on an insurance basis as a matter of *earned right*. It was labeled an earned payment because it was a contributory, compulsory program in which benefits were to be closely related to contributions.

The amount of the benefit was specified in the law; it was to be paid regardless of need, with no behavioral conditions attached other than retirement from work. Payment schedules were based on work experience and were intended to provide living standards that were related to the position of recipients before they retired from the labor force. The program was called social insurance, but the original emphasis was placed heavily on the insurance aspect; the analogy to private insurance was used to assure widespread acceptance.

A basic issue is implied in the phrase *social insurance*. Social goals include the goal of providing minimum economic security to those who are not in the labor force regardless of their previous employment history, wage levels, or contributions to the system. The concept of insurance requires a relatively strict relationship between contributions to the system and benefits drawn from it, and it implies that income drawn from the system after retirement will be related to a previous standard of living. Emphasizing the social component would tend to reduce income inequalities in old age; emphasizing the analogy to private insurance would stress benefits as a replacement for earnings and would continue income differentials. The history of the social security system since its inception is in part the history of an ideological shift in emphasis from an insurance program to a social welfare program. The change has occurred quietly, incrementally and, apparently, without affecting the general acceptance of entitlement to benefits; but it has been a major shift away from individual equity and toward social equality.[3]

THE EXTENSION OF COVERAGE

The first major change occurred in 1939, before the program was actually in full operation, when the Social Security Act was amended to make it a family program. Survivors' benefits were added so that not only was a wage earner covered for retirement but his family was covered in the event of his death, and the benefit formula was changed to include payments for dependents. This was the first movement away from the equity principles of private insurance. The returns to two workers who had paid the same premiums into the system would henceforth be differentiated on the basis of social need, as indicated by family size and composition. At the same time, the computation base for benefits was shifted and tied to average earnings over a minimum covered period, instead of tying the base to cumulative lifetime earnings after 1936. This increased the size of pensions for workers approaching 65.

The 1950's and 1960's saw repeated extensions of coverage to new groups of workers. Regularly gainfully employed farm and household workers, non-farm self-employed (except professional groups) and federal civilian employees not under any retirement system were covered by the 1950 amendments, and for the first time coverage was offered on a voluntary basis to employees of non-profit groups and to some state and local government employees. Further significant extensions of coverage were made in 1954, 1956, 1960

[2] In addition the act provided for the establishment of a system of state unemployment insurance programs, a program of maternal and child health services and three categorical grant-in-aid public assistance programs: Aid to the Aged, Aid to the Blind, and Aid to Dependent Children.

[3] A very clear discussion of the concepts of "individual equity" and "social adequacy" may be found in Robert J. Myers, *Social Insurance and Allied Government Programs* (Homewood, Illinois: R. D. Irwin, 1965), and in Joseph A. Pechman, Henry J. Aaron and Michael K. Taussig, *Social Security: Perspectives for Reform* (Washington, D.C.: The Brookings Institution, 1968).

and 1965 to include professionals, farm self-employed, and members of the uniformed services.

With each extension of coverage came a change in the terms of entitlement to benefits. To make it possible for workers nearing retirement age in newly covered employment to draw pensions, the length of time they had to contribute to become eligible was reduced. Thus those joining the system in recent years will draw a much higher ratio of benefits to contributions than those with a long history of work in covered industries.

One further change in population coverage should be noted. The 1966 amendments provided for the awarding of special reduced pensions to people over 72 who were not in covered employment. For this small group, social security means a demogrant (a grant based solely on age) financed by contributions from general revenues.

The risk coverage was extended in 1956, when a program of insurance was established for disabled workers aged 50–64 and disabled adults who are children of deceased or retired workers. In 1958, payment formulas under this program were adjusted to include benefits for dependents of disabled workers and, in 1960, the lower age of 50 was removed. In 1965, medical and hospital insurance programs for the aged were added. As the program was extended to include additional persons and to deal with additional problems, and as poorer risks were included, the system became increasingly social and redistributive in its impact.

BENEFITS AND CONTRIBUTIONS

The initial emphasis of the social security program on the insurance aspect of social insurance should not be overemphasized. From the very beginning, a compromise was sought between the social welfare need for an anti-poverty minimum level of benefits and the insurance goal of replacing earnings income. Benefit formulas, from the first, favored those in the lowest earning brackets. Over the years, benefit increases have continued to be proportionately larger for recipients at the bottom end of the scale. Payment levels have gone up nine times. The most dramatic increase was enacted in 1950 and provided, effective in 1952, for an average raise of 77 per cent—ranging from 100 per cent at the lowest level to 50 per cent at the top. Raises in 1952 and 1954 were at about 13 per cent, 1958 and 1965 saw 7 per cent increases, 13 per cent in 1967, 15 per cent in 1969, 10 per cent in 1971, 20 per cent in 1972. Many of these changes, of course, are only adjustments to increases in the cost of living. The 1972 legislation provides an automatic mechanism for adjusting benefit levels to changes in the cost of living within a half-year period. The figures make it clear that there has been some real increase in benefits, reflecting rising standards of living. In part, then, the increased productivity of currently employed workers has been transferred to retired workers and their families.

In addition to these formula changes, the income of the aged population generally has been improved by amendments to the act increasing minimum benefits, lowering the possible age of retirement from 65 to 62, first for women and then for men, increasing the amount of earnings permitted without a reduction of pension, increasing the benefit rates for those who delay retirement beyond the age of 65 and raising to 100 per cent the benefits available to widows and widowers.

THE SOCIAL SECURITY TAX

To pay for the prodigious growth of the social security system, the contribution or tax schedule has also grown steadily. In fact, in the last 25 years, social security has been the fastest growing federal tax. Contributions from wage earners and their employers have increased regularly. Starting at a rate of 1 per cent from each, the rate moved to the 2.5-per cent range by the end of the 1950's, reached 4.8 per cent in 1969, and stands currently at 5.85 per cent. In parallel fashion, as median income has risen, the taxable earnings base has gone up, from an initial level of $3,000 to the current level of $10,800. The result: for a worker earning the full amount subject to tax the annual cost of participation has jumped 224 times. The increase which took effect January 1, 1973, was the largest in history. Unlike the benefit schedule, which favors low income workers, this is a regressive tax, favoring those with incomes above the tax base. Not only do current income earners pay for the income of older, retired workers but, to a considerable extent, the extra benefits of low-earning retirees come from low income earners.*

THE OPERATION OF THE SYSTEM

Retirement, survivor and disability benefits are administered as a single program by the Social Security Administration of the Department of Health, Education and Welfare.

Social security is a work-related program and, generally speaking, the terms of entitlement are employment-related. Once the risk qualifications are met (age, retirement, disability, widowhood, and so on) the basic requirement is that a worker establish his *insured status*. Insured status is achieved by having worked in employment or self-employment covered by the Social Security Act for a specified number of calendar quarters. By and large, this means a three-month period in which at least $50 in wages or $100 in self-employment income was earned. For full entitlement to benefits, *fully insured status* is required, which ordinarily requires 40 quarters of coverage.

* After 1974 the earnings base is subject to automatic increases based on changes in the level of average taxable wages under the social security program.

Since many workers were in industries which were not covered until they were near retirement age, the law provides for differential coverage depending on when the industry was included and the date of retirement.[4] A minimum of six quarters is required. The purpose of the fully insured concept is to make long-term attachment to the work force a basis for old age benefits.

This category of *fully insured* is to be distinguished from *currently insured*. Entitlement on a currently insured basis is used to establish recent attachment to the work force as a basis for benefits for survivors. A worker is currently insured if he has had at least 6 quarters of coverage during the 13 quarters preceding death or disability. *Transitionally insured status* was introduced in 1965 to provide minimum retirement benefits for workers who reached the age of 72 before 1969, even if they were not fully covered. Since 1967, persons over 72 have been eligible for a minimum pension even if they are not fully or transitionally insured.

Once entitlement is established for a fully insured worker, the amount of the benefit depends on a complicated formula related to a *primary insurance amount*. This benefit is calculated in relation to average monthly earnings up to the level of the taxable earnings base. The primary insurance amount rises as wages rise, but at a decreasing rate, so that the replacement ratio of benefits for earnings is higher for workers with low incomes than for those with higher wages. The application of the formula is limited by both a minimum and a maximum. To insure the working poor of a retirement income above the poverty line, the 1972 amendments raised the minimum monthly benefit for those who had worked a long time in covered employment to $170 for a single individual. The existence of a ceiling on covered income provides a maximum. For a man in 1972, the highest average monthly earning that could be included was $471 which would give a monthly benefit of about $260. As the years of higher earnings base play a larger role in average earnings, this maximum will of course rise.

The primary insurance amount may be increased or decreased depending upon age at retirement and family size. Workers may retire at 62, but their benefits are reduced; they may continue working past 65 and their benefits are increased. For retiring workers with families, the primary insurance amount is increased by 50 per cent for each dependent. For the transitionally insured, for those over 72, the minimum benefit is now $84.50. All of these benefits will automatically rise in response to increases in the cost of living.

OASDHI is financed by a payroll tax (FICA) on a specified earnings base. Employees and employers pay the same tax rate, currently 5.85 per cent each; the self-employed pay at a rate equal to three-fourths of the combined rate, currently 8.77 per cent. Rates are scheduled to rise to 7.3 per cent for employees and employers and 10.95 per cent for the self-employed by the year 2001. The taxable earnings base is now $10,800. It will go up to $12,000 in 1974 and after that will rise automatically to reflect changes in wage levels. The amount of taxes collected is credited to special trust fund accounts for the social security system. Benefit payments and administrative costs are paid from these trust funds, which have accumulated approximately a one-year contingency reserve to back up the basically pay-as-you-go financing system.

Since its enactment on August 14, 1935, social security has evolved from a limited individual retirement program for a small part of the aged population into a comprehensive system of protection against the hazards of old age, disability and premature death for most American families. Fewer than 20 per cent of the aged were insured or receiving benefits in the early 1940's; 92 per cent of the aged are included now. Where only 58 per cent of all workers were in covered employment in 1940, 90 per cent are now employed under social insurance and most of the remaining work force is covered by Civil Service, railroad retirement or other public insurance programs. Still excluded and in need of protection, however, are a group of domestic employees and migratory farm workers. These are workers whose earnings are often insufficient for coverage, but that very fact makes their need for protection a particularly pressing one.

The aged and the disabled are the primary target groups for social security protection, and they and their families benefit most from the system. Existing social security programs offer little security to children of the working poor or to dependent children from broken homes. For this group there seems to be no immediate prospect for extension of coverage. Neither divorce, illegitimacy nor membership in a large family currently appears to be considered an insurable risk.

Protection against the costs of illness was an early concern of the planners of our social security system. There was the precedent of the well established state workmen's compensation programs which provided medical care and cash benefits for disability caused by industrial accidents. But despite both interest and precedent, there is no federal system of temporary disability benefits covering loss of income due to illness, nor does one appear on the horizon. The outlook is different for health insurance to cover medical and hospital costs. Existing programs cover most of the aged. A variety of proposals for extended coverage of the population are now being explored by Congress and in all probability it is in this area that the next major expansion of social security will take place.

How well has social security met its dual goals of

[4] One covered calendar quarter for each year between 1950 and retirement is required for those who reached age 21 prior to 1950. Those reaching age 21 after 1950 need one covered calendar quarter for each year between 21 and retirement. The total need never exceed 40.

1) providing for the minimum needs of workers who have left the labor force, and 2) maintaining continuity and comparability of income before and after retirement?

Monthly benefit payments to individuals now average $162 ($1,944 a year), just at the poverty line. With the new minimum of $170 a month, the average will rise. Many of the aged also have private sources of income. About one-fourth of OASI recipients and one-fifth of DI beneficiaries get some other cash benefit from a public program. Many of these are low income recipients getting help from public assistance (7 per cent), or VA pension programs (7 per cent); others are retirees from public employment, military service or the railroad industry and benefit from dual entitlement.[5] It may be argued, too, that income is an inadequate measure of economic security for the aged because, in general, they tend to have more assets than the rest of the population.

Nonetheless, poverty is still a major problem of old age, and it increases with age as savings are used up and physical health declines. The "young" aged (those 65–72) with higher average benefits are better off than those over 73. Forty-two per cent of all unattached aged are poor. The risk of poverty is highest for the black population because a large proportion of the group tends to have been employed in uncovered industries and at low paying jobs. For single aged blacks the incidence of poverty is 64 per cent; for unattached black females it reaches 68 per cent. Social security benefits are a major factor in keeping some but not all individuals out of poverty.

Benefit payments are related to pre-retirement standards of living in two significant ways: 1) as median income has risen and the standard of living of the population has gone up generally, benefits have gone up too; 2) higher earnings are reflected in higher payment levels. Replacement rates are highest, however, for the lowest earners. In addition to previous income level, the replacement ratio depends on sex, age at retirement and family status.

Overall, the benefit structure preserves, but narrows, income inequality in old age. It involves transfers from single individuals to families, from middle income groups to low income groups, from the able to the disabled, from workers to widows, from the young to the aged. The direction of the transfers seems irreversible. Future social security legislation may be expected, however, to address itself to some of the issues raised about the size of these transfers. Do married couples need 50 per cent more than single individuals? Does the maximum benefit level discriminate unfairly against middle income workers?

After a long period of concern to increase equality, we may be moving back to a reconsideration of equity questions. The new federal program of Supplemental Security Income will go into effect in 1974, replacing the present adult categories of public assistance. It will guarantee a basic income of $130 a month to the aged and disabled. This, combined with the minimum benefits already established in social security, may lessen the pressure to make OASDI a more redistributive program. It suggests the beginning of a two-tier system whereby, in the future, social security benefits may be directed more toward maintaining the relative position of the retiree.

Overall, the social security system is progressive, both because it transfers income from workers to the retired whose incomes are lower and because, within the retired group, low earners receive a proportionately higher return. In terms of total impact, the advantages of this are offset somewhat by the heavy tax burden placed on the working poor. A high proportion of the low wage earner's income is deducted for social security. If, as many economists have argued,[6] the burden of the employer's tax ultimately is passed on to the worker, the regressive effect is compounded.

Until recently, the tax has had wide acceptance. There has been the psychological appeal of using an earnings-related tax to pay for earnings-related benefits. The bookkeeping operation which assigns tax receipts to special social security trust funds reinforces the image of a "fair" insurance system. But, as we have seen, there is only a very faint connection between the payroll taxes paid by workers and the benefits that he or his family will receive.

A reform of the FICA tax would make the total program more progressive. Removing the ceiling on taxable income (eliminating the exemption to high incomes) would remove the most regressive feature of the contribution system. Further liberalization might be achieved by following the income tax principle of exempting low income from tax and adjusting the effective tax rate to allow for differentials in family size. Alternatively, general tax revenues might be used. Certainly we seemed to have reached the limit of the tax in its current form, with its very heavy discriminatory rates for low and middle income groups.

The social security system has become a powerful, effective social institution for achieving social goals. Some alternative directions in which it might change and expand have been indicated. Which path it ultimately takes depends on a host of factors, including of course the changes made in other social institutions with which it is linked.

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[5] See the study of the Joint Economic Committee. 92nd Congress, 2nd Session, *Studies in Public Welfare,* Paper No. 1, "Public Income Transfer Programs: The Incidence of Multiple Benefits and the Issues Raised by Their Receipt," April 10, 1972.

[6] For a detailed discussion of the payroll tax see John A. Brittain, *The Payroll Tax for Social Security* (Washington, D.C.: The Brookings Institution, 1972).

". . . The Family Assistance plan represented a fundamental departure from the old system. Inequities and disincentives would have been reduced, if not eliminated. . . . The weakness in the welfare reform proposal lay not in FAP itself, but rather in the existing system of benefits and services which was to have been maintained concurrently."

The Story of the Family Assistance Plan

BY ROBERT F. MCNOWN
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IN 1970, AID TO FAMILIES WITH DEPENDENT CHILDREN (AFDC) cost the taxpayers four billion dollars. But at the same time the burden which welfare imposed upon the poor was inestimably great. Dependency was increasing, partly as the result of the welfare system, at a rate which doubled the number of welfare recipients during the 1960's. This striking increase in dependency was occurring during a decade of unprecedented prosperity punctuated by an enormous growth in programs designed to aid those in poverty.

The failure of AFDC was aptly summarized by President Richard Nixon in his August, 1969, address to the nation on welfare reform: "It breaks up homes. It often penalizes work. It robs of dignity. And it grows." A drastic departure from the old system was needed, and the Nixon administration's Family Assistance Plan did indeed offer the first fundamental departure from legislation which had dominated United States social policy since the New Deal. But by September, 1972, welfare reform, the President's number one domestic priority, was dead, killed by an alliance of liberals and conservatives who prevented the bill from ever coming to a vote on the Senate floor.

The political considerations behind this defeat and the economic arguments in support of and in opposition to the bill will be developed as we examine the content and history of the Family Assistance Plan.

The Family Assistance Plan (FAP) was a particular version of a negative income tax or guaranteed minimum income scheme.[1] Previous anti-poverty legislation had taken the "services" approach to fighting poverty, attempting to raise poor peoples' incomes by increasing their earning capacity. The main problem with programs like job training, education and public sector employment was that few of the benefits actually reached the neediest individuals. In contrast, FAP proposed to provide the working poor with the kind of assistance they needed most—a direct supplement to their incomes. The task involved developing a program which would supplement low incomes while maintaining an incentive to work, an objective which was not being achieved by the existing system.

The program people generally refer to as "the welfare program" is the Aid to Families with Dependent Children. Individual states determine the rules for eligibility under this program, while the federal government assumes most of the costs. The particular design of the AFDC program has created three important sources of inequity or undesirable incentives which the Family Assistance Plan was designed to alleviate.

First of all, since AFDC payments are not available to families headed by an employed male, the welfare system provides a financial incentive for families to separate. In many states the level of benefits is high enough relative to the income which an unskilled worker can anticipate that this inducement is very strong indeed. For example, a four-person family headed by a female earning nothing is eligible for benefits totaling \$5,086 in Chicago or \$5,509 in New York City. FAP was to have reduced this incentive for families to dissolve by providing benefits to families headed by a working male who was earning an inadequate income.

While this entailed adding nearly 13 million individuals to those already receiving welfare payments, FAP was designed to maintain incentives for the working poor to continue working and strive for higher levels of income. This was to have been accomplished by reducing the FAP benefit by only 50¢ for every

[1] For a description of these ideas see Larry D. Singell's article in this issue.

dollar earned. Thus the benefit would have been reduced gradually enough so that a worker who managed to increase his earnings on the job would take home more total income inclusive of the FAP supplement. Non-workers would have the same incentive to assume employment, because take-home income (including FAP benefit) would increase for every dollar earned. It was necessary to provide benefits to the 13 million working poor so that the incentives not to work would be eliminated.

The third inequity to be eliminated was the existence of tremendous differences in the level of benefits which individual states were providing. Average monthly benefits for a family of four ranged from $46 in Mississippi to $265 in New Jersey. Aside from the inequity implied, this differential also encouraged migration from the South to the wealthier but more crowded industrial cities of the North.

Conservatives and liberals alike recognized the need for welfare reform. The question was whether the President's particular proposal matched the majority's view of the reforms needed. Basically, the Family Assistance Plan called for a guaranteed income to all families with children. The guarantee depended on the size of the family with, for example, a family of four which earned nothing receiving $1,600 plus $800 in food stamp benefits. For the first $720 earned no benefits would be lost; beyond that, for each dollar earned, benefits would be reduced by 50¢. Although FAP was supposed to replace the AFDC program, in actuality the proposal required states to maintain supplementary payments to current welfare recipients so that no one would receive lower benefits than before. State supplemental benefits were to be reduced by two-thirds of a dollar for each dollar earned. There were also minor provisions for work training and day care plus a small ($300) penalty for refusing a job opportunity.

In isolation, the bill looked promising. Adequate work incentives and some equity were to be built into the welfare system. A moderate balance between costs ($4.4 billion above existing costs), incentives and the goal of poverty reduction was achieved.[2] But an examination of how the proposal would operate when integrated into the existing system of welfare payments and services revealed important weaknesses which ultimately caused its defeat.

HISTORY AND EVALUATION

The idea of a negative income tax, on which the Family Assistance Plan was based, originated in the fertile mind of Professor Milton Friedman. While working for the United States Treasury, Friedman noticed a certain assymetry in the tax laws as the result of the personal exemption provisions. Most families deduct the first several hundred dollars, depending on family size, from their earnings as non-taxable income; the tax is then based upon the remainder. Low-income families, however, are not able to use up the entire exemption to which they are entitled when their incomes are less than the income level on which exemptions can be claimed. This means that a family with a fluctuating income pays more in taxes than a family with a comparable but stable income.

This particular inequity could be eliminated if people were entitled to claim a full "exemption" whether they earned enough income or not. If incomes were to fall short of the exemption level, the family would be eligible for a negative tax or a rebate from the government. Aside from the problem of fluctuating incomes, this idea was also recognized to be an effective scheme for supplementing the incomes of the poor.

For many years, the idea of using a negative income tax as an anti-poverty program was debated in academic circles. In the meantime, the legislative approach toward poverty was to provide services for the poor. Some programs involved supplying poor families with certain amenities—food, housing, medical care—which were deemed necessary for an adequate existence. Others attempted to increase the earning power of the poor by retraining, providing jobs, or establishing minimum wages or price supports for particular industries.

Unfortunately, a great deal of the money involved was absorbed by upper and middle class bureaucrats and purveyors of the services, and never reached the poor for whom the programs were designed. In addition, these programs presumed a knowledge on the part of administrators of what goods and services were best for poor families. It would be less arrogant and more efficient to provide direct cash payments and let the recipients decide what they needed most. The classic objection, that irresponsible parents would squander the money on liquor and color television, loses much force when one considers what percentage of the funds for these programs lines the pockets of upper and middle class individuals.

The failure of these welfare programs is well documented.* Public housing and urban renewal programs have provided tremendous subsidies for real estate developers and construction industries. Job training programs usually succeed in providing training and jobs for relatively well qualified individuals who would have secured employment anyway. As an anti-poverty program our system of agricultural price supports has been highly inefficient; since payments are based upon crop output rather than income deficiency, the larger and wealthier farms receive the largest subsidy. The largest 7.1 per cent of the nation's farms collected 40 per cent of the subsidies,

* *Editor's note:* See also the article by Keith Bernard in this issue.

[2] See L. D. Singell's article for a discussion of the tradeoffs involved in any guaranteed income proposal.

while the smallest 41 per cent with sales of less than $2,500 per year received only 5.3 per cent. In spite of, or perhaps because of, their failure, these programs have built up powerful constituencies which lobby for their preservation. As fighters of poverty they may be ineffectual, but in reelecting particular legislators they are most effective.

Recent Democratic administrations continued to build upon these "services" programs, leaving to the Republicans the opportunity to propose a fundamentally new approach to poverty. The idea of a negative income tax scheme was philosophically appealing to the President. Unlike the previous approach to poverty, a program of income supplements involved a minimum of direct government action and relied heavily upon the individual. Market forces, not bureaucracies, would furnish the appropriate incentives in the fight against dependency.

In March, 1969, a task force headed by Under Secretary of HEW John Veneman submitted a proposal for welfare reform which embodied the most important features of what was to become the Family Assistance Plan. The main concern which the Cabinet officials expressed in reviewing the proposal was the lack of a work requirement. Partly for the sake of appearances, a small penalty of $300 was imposed against anyone who refused to accept suitable employment. An amendment to increase work incentives by making the first $720 earned tax-free was also adopted at this time. As Cabinet members began to realize that a $4.4-billion welfare reform bill was not going to leave much flexibility in the budget for their own particular programs, their enthusiasm waned. But the President's own commitment to the idea and the desire of the entire administration to propose something revolutionary won out. On August 8, 1969, President Nixon presented his plan for welfare reform to the nation.

THE NIXON PLAN

At the time of his television address there was little support for the idea of a "guaranteed income." Fifty-seven per cent of respondents to a 1968 Gallup poll opposed the idea. Strong interest groups had grown out of the host of anti-poverty programs of the past decades, and these were reluctant to embrace a plan which would reduce their influence. Conservatives looked upon FAP as a new and potentially huge drain on the Treasury. Liberals were hung up on the work requirement features of the bill and the meager size of the individual supplement.

The term "guaranteed income" was never officially used to describe FAP. The fact that payments were available only to families with children and the existence of the $300 penalty as a work requirement provision permitted the administration to claim some distinction between FAP and the guaranteed income concept. This somewhat semantic distinction was sufficient to convince many citizens; a Gallup poll one week after the President's address showed that 65 per cent of those familiar with the proposal supported it.

But more important than the public's attitude were the positions of the various interest groups concerned with welfare reform. The focus of much opposition to the bill was the National Welfare Rights Organization, NWRO. Composed mainly of beneficiaries of the existing welfare program, this group could not be enthusiastic about the Nixon proposal. It did, however, have an alternative plan—a guaranteed minimum income of $5,500 with absolutely no work requirement.

More liberal counter-proposals like these demonstrated little understanding of the nature of income supplement programs. There was no appreciation of the fact that even the $4.4 billion cost of the Nixon proposal was a large sum, let alone the $71 billion which the NWRO proposal would have cost. Compromises in this direction lead to tremendous increases in cost because so many new families become eligible as the income guarantee is raised.

Liberal opponents also scored the so-called work requirement feature of the bill. "The proposed Nixon welfare proposal to deal with family income maintenance is little more than a public relations gimmick to subsidize cheap labor and involuntary servitude" read a position paper by the California Community Action Program Directors Association. That the $300 penalty for refusing work was actually not much of a work requirement let alone "involuntary servitude" was better understood, even if not accepted, by conservatives.

Both these criticisms were based upon an insufficient understanding of a negative income tax scheme. Work requirements need not be spelled out in particular provisions of the bill as long as adequate incentives have been built into the plan. The success of such a plan in making people work rests upon the assumption that individuals will increase their work effort in order to increase their incomes; however this will certainly not be the case if the minimum income guarantee is set too high. The minimum income guarantee set by the FAP was not intended to be sufficient for a family of four to live on; rather it was recognized that most families earn something and that Family Assistance would merely supplement this income.

While these issues were being discussed in the press, the real question in terms of the possibilities for enactment was the position of Wilbur Mills. Congressman Mills, the independent-minded chairman of the House Ways and Means Committee, was considered by many to be the second most powerful man in Washington, and his ability to delay or prevent passage of legislation was well known. The Ways and Means Committee was impressed first and foremost by the

large price tag on the proposal. But the members were also very much aware of and concerned with the failure of the present welfare system. Mills in particular felt that something had to be done, and Family Assistance was proposing to do something which sounded reasonable. On March 5, 1970, the Ways and Means Committee voted in favor of the bill 21 to 3. On April 15 and 16, Mills led the fight for the bill on the House floor; the Family Assistance Act was passed by the House, 243 to 155.

In a sense, the important history of the bill began with the hearings of the Senate Finance Committee, where the FAP received its closest scrutiny and its final defeat. From an economic point of view, opposition to the bill derived from the fact that in many cases the disincentives and inequities of the present system would not be eliminated when FAP was integrated into the existing network of programs. A political interpretation of its defeat would be that the bill was killed by a combination of liberals, who thought the bill was too stingy, and conservatives, who thought welfare reform meant getting rid of chiselers. Ultimately, however, it is apparent that most thought it unwise to increase welfare expenditures by $4.4 billion while adding 13 million new recipients when it was not clear whether the new plan would work any better than the existing system.

Another point which bothered the members of the Finance Committee was that the bill did not appear to eliminate discrimination against the working male. Since states were required to provide supplements to guarantee that no family presently receiving benefits would lose income under the new program, the incomes of non-working welfare recipients would in many cases remain higher than those of working males who were only eligible for FAP benefits. For example, in 1970, 18 states provided sufficient AFDC benefits to families of four headed by a woman to guarantee $3,000 in income. Under FAP these families would continue to receive $3,000 if the woman earned nothing and would net $4,147 if she earned $2,000. A male earning $2,000 and receiving no state supplement (since he presently receives none), would have a total income of $2,960 with the FAP benefit. Although the administration pointed out that such small earnings applied only to a small number of working males, it was difficult to see in these figures a significant improvement over the present incentives for family dissolution.

Finally the Senators were concerned about continued inequities towards recipients in different states. While the FAP was to have established a minimum floor on benefits, the requirement that state supplements be maintained meant that benefits would continue to differ from state to state.

The Family Assistance Plan was crippled by the kind of program it was supposed to displace. The political necessity of maintaining existing benefit programs paradoxically generated major obstacles for the new proposal. At the end of the Senate Finance Committee hearings in the spring the administration was directed to work out a revision of the House bill which would eliminate the contradictions which had been uncovered.

Three months and one HEW Secretary later the administration returned with a proposal in which there were no notches. This was accomplished, not by redesigning the Family Assistance Plan itself, but rather by proposing that the other benefit programs be tailored to fit the design of FAP. Housing, food stamp, and medical benefits were to be reduced gradually as earnings rose in the same manner as FAP benefits. There was thus no point where incomes would drop as earnings rose as the result of an abrupt termination of eligibility for some program.

The problem was that in order to achieve this, one had to tax welfare recipients at a very high rate. Citing a representative example,[3] a Chicago family would always increase its income by earning more on the job under the revised plan. However, if a woman heading such a family assumed a job and earned $4,000 she would increase her income by only $312. This would be equivalent to taxing her earnings at the rate of 87 per cent, a rate which obviously does not leave much incentive for work. While this may be an extreme case, particularly since only about 10 per cent of AFDC recipients presently receive public housing benefits also, the effective rate of taxation for many welfare families at moderate income levels was on the order of 75 per cent under the administration's revised program.[4] One might compare this figure with the 70 per cent tax rate which applies to the highest income earners in the United States.

There was also considerable political pressure against the bill. Present welfare recipients, with the National Welfare Rights Organization as spokesman, were reluctant to open their preserve to outsiders such as the working poor. While virtually no one currently on welfare would have been hurt by the proposal, only the working poor and 10 per cent of current recipients, mostly living in low income states, would have been made better off financially. Therefore the NWRO in representing the interests of welfare families wanted a

[3] Chicago is used as an example several times in this paper as it is considered to be fairly representative of the nation's welfare situation. The maximum AFDC payment for a four-person family in Chicago is approximately $3,000; 18 states including the most populous have maximum benefit levels equal to or greater than this figure.

[4] This figure is based upon an examination of the tables on pages 1224 through 1227 in the hearings before the Senate Finance Committee on the Family Assistance Act, part 2. Milton Friedman comes up with an 80% rate of taxation; this observation led him to oppose adoption of FAP in spite of the fact that he was the originator of the negative income tax idea. See Milton Friedman, *An Economist's Protest* (Chicago: Thomas Horton and Co., 1972), pp. 138–139.

program with a higher guaranteed income rather than FAP. Many liberals were sympathetic with the view that an income guarantee of $1,600 was too little, for what family of four, they would ask, could possibly live on this meager amount? But it was not the expectation of the proponents of Family Assistance that families would have only this income; FAP benefits were intended to supplement the earnings of the working poor. Approximately 50 per cent of the people classified as poor come from families headed by a full-time worker, and it was estimated that the proposed supplement would eliminate 60 per cent of the poverty in the country.[5] Furthermore, the higher income alternatives were naturally considerably more costly and would also tend to weaken work incentives.

On the other side of the political fence were those whose idea of welfare reform was to force people back to work, to track down male deserters, and to eliminate welfare cheaters. To such individuals a plan which would add 13 million new people to the welfare roles was not reform. They were more concerned with the work incentive and requirement features of the bill, and in the light of past performance of work incentive programs they were very skeptical.

While being squeezed from the right and the left, FAP was also facing some regional opposition. Southerners were quick to observe that the bulk of the relief to state finances resulting from the federal assumption of some state welfare expenses would go to the larger industrial states like California and New York. At the same time, however, the major beneficiaries of the FAP would be the large number of poor people in low income southern states. It is not clear, however, whether Senators from Mississippi, for example, where as many as one-third of the population would qualify for benefits, viewed this as a blessing.

With neither liberal nor conservative support at this point the bill had no chance and in spite of previous promises to deliver a welfare reform measure to the Senate floor, the Senate Finance Committee finally voted on November 20 to defeat the bill. FAP was resurrected the following year once again as the administration's number one domestic priority. The proposal was passed by the House and finally in September of 1972 the Senate Finance Committee did report out a welfare reform bill of sorts. But again the bill was trapped between the liberals and conservatives, and a threatened filibuster prevented the Senate from voting on the measure.

Family Assistance was officially dead, and its prospects in the coming years were grim. Several tax cuts in the late 1960's and early 1970's plus the mounting expenses of existing social legislation meant that the federal budget would tend to show a deficit even without a $4-billion welfare reform measure. Family Assistance was not mentioned in the 1973 budget messages, and it was not likely that it would be considered again for several years.

FINAL EVALUATION

The analysis of the Family Assistance Plan by the Senate Finance Committee was technically correct. Many inequities and work disincentives existing in the present welfare system would not have been eliminated. For some recipients participating in other benefit programs, the effective rate of taxation would have been extremely high. Disparities between states would have persisted, and in many cases the position of the working poor would have remained worse than that of the non-working recipient.

However, the Family Assistance Plan represented a fundamental departure from the old system. Inequities and disincentives would have been reduced, if not eliminated. For many poor families, FAP would have provided an important supplement to their incomes without inhibiting their work ethic. Benefit variations among states would not have been eliminated, but a common floor would have been established for all poor families in the nation. While some families headed by a non-working mother would have fared better than a comparable family headed by a male with a full-time job, the inequity would have been reduced. Although the members of the Finance Committee were aware of these advantages, they must have estimated that what they considered a marginal improvement was not worth the $4.4 billion cost.

However, it is a mistake to consider a fundamentally new approach to welfare a marginal improvement. This was a program which for the first time would have offered income supplements to the working poor, thereby eliminating 60 per cent of the nation's poverty. The program would have attempted to reduce the pernicious incentives of the present system which leads toward family dissolution and ever increasing welfare costs. The weakness in the welfare reform proposal lay not in FAP itself, but rather in the existing system of benefits and services which was to have been maintained concurrently.

Milton Friedman, the originator of the negative income tax idea, suggested from the beginning that true welfare reform would require scrapping the present system rather than building upon it. Eliminating

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[5] D. P. Moynihan, *The Politics of a Guaranteed Income* (New York: Random House, 1973).

"At any rate, there can be no doubt that some form of guaranteed annual income must be the first step in any responsible program to alleviate poverty in America."

A Federally Guaranteed Minimum Income: Pros and Cons

By Larry D. Singell
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In the two or three million years of human history, poverty has been so persistent that roughly 99 per cent of the people who have ever lived have lived at the very edge of subsistence.* Most of these people lived in societies where the annual output of goods and services was so low that even if this output were equally distributed among people or families, poverty would have been inevitable. It is equally striking that approximately four-fifths of all the people who have ever lived above subsistence have lived in the last 200 to 300 years. Even now, approximately 80 per cent of the world's population could be described as poor in almost any definition of the term.

It is in this context that the problem of poverty in America must be viewed. First, the uniqueness of the condition of widespread affluence (reflected in the fact that, in 1970, 90 per cent of all Americans were classified as nonpoor) alters the social significance of poverty for the individual and changes the social and moral implications of the choices open to society. Second, the short duration span of current general affluence provides very little experience on which to draw, and leaves many unanswered questions about alternative approaches for eliminating the poverty which still remains.

In this article, we shall consider the pros and cons of several alternative strategies for dealing with poverty. When considering any strategy of guaranteed annual income, several factors regarding the characteristics of the poor must be kept in mind. On the basis of the federal government's definition of poverty, in 1968, there were 20.7 million poor who lived in family units and 4.7 million poor unrelated individuals. Of the poor in family units, 10.7 million were children under the age of 18, and 2.1 million were past the age of 64. Of the poor unrelated individuals, 2.6 million were past the age of 64. Thus, 62 per cent of the poor living in family units and 55 per cent of the poor unrelated individuals could not, given conventional social practices, remove themselves from poverty by working. Another way of looking at this is to consider that most of the children and elderly in our society are kept out of poverty by receiving some transfer of income either from their parents, or relatives, or by means of pension arrangements, and those for whom these transfers are inadequate or nonexistent are poor.

While it is beyond the scope of this article exhaustively to review the definitions, composition and causes of poverty, several observations are essential to an understanding of the role and importance of a guaranteed annual income.[1] When poverty is defined in terms of income alone, three broad causes of poverty may be distinguished: unemployment, low productivity and discrimination. Clearly, if society's demands for goods and services are not high enough so that businessmen will need to employ all of the available labor—with the result that some individuals will be without work—unless adequate transfers of income are made, inevitably some people will be poor. Even if employed, if their skill level or education is inadequate, low wages and poverty will result. Further, discrimination against racial and ethnic minorities, women and the elderly results in poverty as these groups are forced to accept wages, occupations and jobs in industries in which their productivity is lower than potentially possible. Of course, the effects of discrimination can be broader and involve factors which more indirectly affect jobs available or wages paid. For example, society may spend less on the education and training of these groups, enact laws which require exit from the labor market altogether (for example,

* The author would like to thank Nicholas W. Schrock for his helpful suggestions in writing this paper. Remaining shortcomings are of course the author's responsibility.

[1] *Editor's note:* For a detailed study of the dimensions of poverty in America, see *Current History*, June, 1973.

forced retirement at age 65), or follow subtle social practices which lead individuals to exclude some possibilities from their planning horizons.

Several factors enter the picture. First, poverty among people of working age may be caused by forces well beyond the individual's control; these forces are essentially a societal or collective responsibility. The level of unemployment, for example, is largely determined by the total demand of society for goods and services and by the nation's rate of technological progress. As the Great Depression and subsequent recessions have proved, no amount of individual effort alone can overcome these structural factors.[2] In a similar way, the social practice of discrimination which results in lower incomes for blacks, Indians or women operates both within and beyond the individual's control.

Second, if society were to take steps to reduce unemployment and discrimination and to enact a guaranteed minimum income adequate to allow individuals to obtain education and training which could improve their productivity, the size of income transfers in the future should decline significantly. This is so because in a fundamental sense the major "cause" of poverty is poverty itself. When individuals or, for that matter, countries are so poor that it takes all their energies and resources to subsist, leaving little or no resources available to invest in improving productivity, the result is continued poverty. Thus, for example, many of the poor are forced by poverty to accept unskilled jobs instead of going to school. Low wages in unskilled employment make an adequate diet or medical care impossible, which may result in illness and absence from work and an even lower income, which may further result in pressure to engage in illegal activities, which may lead to a police record, which makes obtaining work even more difficult. Because of this "vicious circle of poverty," society's acceptance of the responsibility of poverty would "cause" some substantial part, if not all of it, to disappear.

ALTERNATIVE STRATEGIES

The major job of any income maintenance system should be to supply income for those unable to earn enough to live in decency, without destroying the recipients' incentive to become nonpoor through their own efforts. It might be helpful in evaluating the alternative income maintenance strategies to divide this general goal into its three more specific aspects. First, any program should be adequate; that is, it should have support levels that are high enough to pull people out of poverty, however poverty is defined. Second, a program should be economical, which means in general that we should like to get as much povery reduction per dollar as possible, and in particular, that we want as little money as possible going to the nonpoor; and third, a program must include incentives, which means that we should like to encourage the poor to do as much as they can on their own to remove themselves from poverty. For example, reductions in work effort or expansion in family size which are induced by the established program would be highly undesirable side effects.

Indeed, the problem with current income maintenance programs in the United States is that in some fundamental way they fail in all of the above criteria. Thus, Robert Lampman pointed out that in the mid-1960's income maintenance payments totalled "$36 billion per year and go to over 30 million people. This class of income is 40 per cent of the income of the poor population, yet most of it goes to the nonpoor, and at least half the poor do not receive any of it."[3] In addition, other studies have documented the inadequacy of support levels, the indignity that goes with obtaining assistance, the built-in incentives against earning income or maintaining family unity, and the wide variations among states in payments and eligibility which must be overcome in any well developed national system of income maintenance.[4]

The two basic types of income maintenance systems that will be considered here are the family allowance and the negative income tax. Although there are a very large number of specific proposals in the literature, the features of most of these can be considered within the context of these two basic concepts, although the actual levels of support, costs, incentive effects and so on for variants may differ.

FAMILY ALLOWANCE

Family allowance plans make grants of income to families, and the level of the allowance typically varies with family size. Such plans are widely used throughout the world. Indeed, the United States is the only Western industrialized nation that does not have such a plan. The logical foundation of these plans rests on the notion that the formative years of childhood are the most important to the subsequent development of the individual. In addition, in the typical family, parents of small children tend to be in their early stages of occupational development and thus earn a relatively lower income. Thus, the grants come at a time of need and can be "repaid" through taxes as income increases over the working lives of the parents. Details of the plans differ, but most plans of

[2] It should be noted here that while Congress formally recognized its responsibility in this area by passing the Full Employment Act of 1946, it has essentially failed in meeting this obligation. Thus, in the 27 years since the act was passed only eight have seen an aggregate unemployment rate of four per cent or less. In recent years when total unemployment has been at four per cent, unemployment of blacks has been about eight per cent and among teenagers the rate is approximately 12 per cent.

[3] Robert J. Lampman, "Ends and Means in the War on Poverty," in Leo Fishman (ed.), *Poverty Amid Affluence* (New Haven: Yale University Press, 1966), p. 221.

[4] See for example Joseph Kershaw, *Government Against Poverty* (Chicago: Markham Publishing Company, 1970).

this type disregard family income completely in determining eligibility.

In 1970, there were 69.8 million children in the United States living in family units, of which 14 per cent, or 9.8 million, lived in poverty households. Of the 24.3 million poor in 1970, 19.4 million people, or approximately 80 per cent, were living in families with children; thus a family allowance system represents one logical approach to the reduction of poverty in the United States.

An example of such a plan has been developed by Alvin Schorr, an authority on family allowance. This plan would pay $10 per month for the first child and $40 per month for every subsequent child until he reached the age of 18. Forty dollars was selected because it is slightly above the average payment per child in the Aid to Families with Dependent Children (AFDC) program. Schorr's plan also calls for a reduction in other assistance programs which would offset the gross cost of the program. Further, he proposes that the current federal income tax exemption for children be repealed, which would also reduce the costs of the program. Under these assumptions, Schorr estimates the net annual cost would be about $14 billion.[5]

The major advantages of this scheme are: (1) it removes any stigma associated with the payments, because all families with children are eligible; hence, there is no dehumanizing test of neediness; (2) it would provide income grants to a very large fraction of the poor; (3) it presumably provides income at a time when family needs are most critical, and (4) in principle, it would not penalize children for the accident of being born to poor parents.

There are, however, a number of problems associated with proposals of this type. First, most such proposals are either very inadequate or, if they are adequate, they are very costly. In Schorr's proposal above, a family of four would receive $600 per year—well below any concept of adequacy if there were no other source of income. In addition, of course, this program would provide no assistance for the poor who were not in family units with children. Even in poor families with children, the payments would stop when the children reached a certain age, while their need might actually remain unchanged.

Second, this plan, like most family assistance plans, is very uneconomical. Since 14 per cent of the children in the United States live in poverty, the major part of the payments would go to nonpoor families.

Third, while the plan may not provide any incentive to reduce work effort, some people have argued that it may have the undesirable effect of increasing birth rates. Since a reduced birth rate has been viewed as essential to the long-term elimination of poverty, this could be a critical problem. While there is no convincing evidence that family allowance plans do in fact increase birth rates, many people are bothered by the fact that the only way a family whose head is unable to work can increase family income is by having more children.[6] In short, most family allowance plans fail to meet the tests of adequacy, economy and incentive, and may not be the best way to provide a guaranteed annual income.

NEGATIVE INCOME TAX

While the idea of the negative income tax goes back at least to World War II, it has recently received a great deal of study as a major strategy for alleviating poverty in the United States. The logic of the concept is that the federal tax system allows a family of four a minimum standard deduction (MSD) of $3,000 from its income before any tax is paid (these figures and the examples to follow are based on the Revenue Act of 1964). Hence, the taxable income of a family of four with an annual income of $10,000 is reduced by at least $3,000. The logic of this exemption is presumably that these first dollars of income represent a minimum income that everyone needs. However, this tax structure does not provide any way for a family who has an income below $3,000 to claim the value of these exemptions; thus the poor family is treated differently from the rich by the taxing system. This disparity could be corrected, of course, by a negative tax—that is, a positive payment made to the family whose income falls below the MSD.[7]

If there were no taxes, a family earning $5,000 (its pre-allowance income) would have $5,000 of disposable income. For a family of four who paid taxes and took the minimum standard deduction, tax payments would begin at $3,000, at the lowest rate of 14 per cent, and thus above $3,000, disposable income would be less than a family's taxable income. For example, if the family's income before tax was $5,000, its disposable income would be $4,720.

Although there are a number of different negative income tax proposals, the main effect of all of them is to alter tax payments for families with income less than the guaranteed minimum. For example, if the nation wanted to guarantee an income of at least $3,000 to every family of four, it could accomplish this by setting the negative tax rate at 100 per cent below $3,000, and the income at which net taxes and transfers would be zero at $3,000. Thus, a family with an income of $2,000 would receive a $1,000 transfer and a family with an income of $1,700 would receive a transfer of $1,300; at an income of $3,000, no tax

[5] Alvin L. Schorr, *Poor Kids* (New York: Basic Books, 1966), Ch. 9. This discussion of family allowance draws on Kershaw, *op. cit.*

[6] For a review of the literature on the effect of family allowance plans on birth rates see Christopher Green, *Negative Taxes and the Poverty Problem* (Washington, D.C.: The Brookings Institution, 1967), Ch. 8.

[7] This discussion of the negative income tax proposal draws very heavily from Kershaw, *op. cit.*, Ch. 6.

or transfer would be paid by the family members.

This brings us face to face with one of the major dilemmas of the negative income tax concept. If there is a 100 per cent negative tax rate below $3,000 a payment would be made to bring income to $3,000; this would, in effect, destroy any incentive to earn income for all those below the established minimum, and perhaps for some of those above it. If the individual were to accept a job, every dollar he earned below $3,000 would reduce his negative tax transfer by one dollar—leaving his net income unchanged. Even though some people would continue working under these conditions, they might resent the fact that others who could work, but chose not to, would receive the same income they did.

This problem of maintaining incentives can be overcome by giving up either adequacy or economy. President Richard Nixon's Family Assistance Plan is a plan which maintains incentives by giving up adequacy. This plan as originally proposed set the negative tax rate at 50 per cent and the break-even income at $3,000. If the family of four had no income, it would thus receive a transfer of 50 per cent of the MSD, or $1,500. On the other hand, if the head of the family were to accept a job which paid $1,600, he would then receive a transfer of $700 and family income would increase to $2,300. When earning reached the level of $3,000, no transfer or tax would be paid. Thus, there would be an incentive to work, because family income would increase, and the plan would be economical since all transfers would go to people below the poverty level, but it would clearly be inadequate, since a family of four with no income would only receive $1,500.

Other experts in the field argue that both incentive and adequacy should be maintained. This could be done by maintaining the 50 per cent tax rate adopted above, but establishing the break-even line at $6,000, rather than at $3,000. Thus, a family with zero income would receive a negative tax, or transfer, of $3,000. Incentives to work are maintained because, for example, if the family earned $3,000, its disposable income after the transfer would be $4,500. It should be noted, however, that adequacy and incentives are maintained only at the expense of economy. That is, transfers must be paid in this plan up to an income of $6,000, which means that some portion of the transfers goes to people who are not deemed poor by our definition. In fact, some people who were actually paying taxes before the introduction of the negative income tax would be receiving a subsidy. An alternative way of putting this is that the poor (those with incomes of less than $3,000), would receive subsidies larger than those required to lift them above the poverty line, and many people above the poverty line would receive subsidies as a way of maintaining work incentives.

This dilemma has been referred to as the three-way dilemma of negative income tax because there is literally no way that the three objectives of adequacy, economy and incentives can be simultaneously realized. Conservative economists like Milton Friedman are inclined to stress economy and incentives while others, like Robert Theobold, are more likely to be concerned with adequacy. In any case, there is a trade-off between the cost of the program, the level of the minimum income to be guaranteed, and the tax rate to be applied. The resolution of this conflict turns as much on the different philosophical views and commitments to equality as it does on the now very shaky evidence regarding work disincentive effects.[8]

At any rate, a high guaranteed income rules out low negative tax rates (which may be needed to maintain incentives) unless society is prepared to accept a very costly program. A specific example may help here: if there is a $3,000 guarantee, the existence of a 50 per cent tax rate means that income earners may keep half of what they earn (in the current tax structure a family of four would have to earn over $200,000 before a 50 per cent marginal tax rate became applicable) and would pay no tax until income passed $6,000. At the same minimum, providing greater work incentives by allowing a family to keep 67 cents of each dollar it earns, would involve the continuation of subsidies until an income of $9,000 was earned and would thus shift all the burden of the tax system to people above this level. Thus, estimates of the net cost of the program vary from approximately $5 billion annually, estimated by Lampman, on upward to $29 billion per year for Robert Theobold's more liberal program.[9]

There are a number of advantages to the negative

(Continued on page 86)

[8] Actually the best evidence to date suggests that in the aggregate, work incentive effects may not be very large. See for example Hershal Kasper, "The Demand for General Assistance Payments," *Journal of Human Resources,* Vol. 4 (Winter, 1968); see also Green, *op. cit.,* and Harold Watts, "Graduated Work Incentives: An Experiment in Negative Taxation," *American Economic Review,* Vol. 59 (May, 1969), pp. 463–478.

[9] If the current tax system had been used in the above example these cost estimates would be much higher. For example, a family of four that claimed the MSD in 1972 paid no tax until income exceeded $4,300. Thus with a tax rate of 50 per cent or 33⅓ per cent, subsidies would continue to $8,600 and $12,900, respectively. This would increase the cost substantially; since in 1970, 65.3 per cent of American families had an income under $12,000, the whole tax burden would have to be shifted to the upper third of income-earning families. The political difficulties involved in such a system may be overwhelming. For Robert Theobold's program see Robert Theobold, *Free Men and Free Markets* (Garden City, New York: Doubleday, 1965).

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"There is no perfect welfare reform. . . . The federal government is more likely to develop, in incremental steps, a 'floor' payment for the AFDC program which can be supplemented by state payments. . . ."

Nationalizing the Welfare System: An Evaluation

By Richard M. Pious
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Our present welfare system is intergovernmental: federal payments are made to states for categorical programs aiding the blind, the aged, the permanently and totally disabled, and families with dependent children.[1] In addition to federal payments (administered by the Assistance Payments Administration of the Department of Health, Education and Welfare) medical services are provided under medical vendor and Medicaid programs (paid for by states and the federal government), a food stamp program enables indigents to purchase food stamps (redeemable in grocery stores) at a fraction of their value, and social services are financed by the federal government (up to 75 per cent) and states for a variety of social services such as literacy education, day-care centers, and family planning services.[2]

Although the federal government pays the largest share of the costs of the welfare system, primary administrative responsibility is exercised by state welfare agencies. These agencies must submit plans to HEW and abide by numerous federal regulations, but the eligibility criteria and payment levels are set by states and may vary considerably.

One consequence of the delegation of authority to the states is that the working poor, who are ineligible for the federal categorical programs, are usually not provided for in any state welfare programs. These working poor constitute almost half the total number of poor persons.[3] There is no fairness in a system that provides significantly higher benefits to those who cannot work than the earnings of those who do work.

States and localities that expand their rolls must pay for part of the increased costs. The federal government can resort to deficit spending if necessary, and avoid an increase in taxes, but most states (and all counties and municipalities) are forbidden to engage in deficit spending; in order to pay for increased welfare costs they must raise taxes, trim back other governmental expenditures, or both. Since localities and states compete for industrial, commercial, and residential development, there is pressure on elected officials to keep governmental expenditures, hence taxes, low. Moreover, local elected officials, responding to pressure from voting constituencies (most of whom are taxpayers) may perceive it to be "rational" to keep welfare expenditures down by providing low benefit levels and enforcing strict eligibility requirements. Every state and locality seek to offer disincentives to apply for welfare in their jurisdiction, while maintaining tax rates attractive enough to stimulate investment from outside sources.[4]

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[1] In 1970 the federal shares for these programs were: Aid to Blind, 57.5 per cent, Aid to Aged, 64.7 per cent, and Aid to Permanently and Totally Disabled, 54.9 per cent. States generally share the remaining costs with counties and municipalities. A description of the welfare programs and social security programs in the United States is contained in *Social Security Programs in the United States,* a publication of the Social Security Administration (Washington, D.C.: U.S. Government Printing Office, 1971).

[2] Spending on social services at the federal level rose from $354 million in Fiscal Year 1969 to $1,710.2 million in Fiscal 1972. States submitted requests estimated at $4.7 billion for Fiscal 1973, a sum unacceptable to the Nixon administration. As a result of initiatives of the administration and members of the Senate Finance Committee, the social services program has a statutory ceiling for Fiscal 1974 of $2.5 billion, and the administration plans to hold spending at $1.8 billion. See *The National Journal,* Vol. 5, February 3, 1973, p. 150.

[3] *Current Population Reports: Income in 1968 of Families and Persons in the U.S.,* P-60 No. 66, December 23, 1969. On the general impact of federal government spending and wage rates, see Barry Bluestone, "Economic Crisis and the Law of Uneven Development," *Politics and Society,* Vol. 3, No. 1, Fall, 1972, pp. 65–82.

[4] One sees this demonstrated in the case of southern states: property and corporate income taxes are lower than the national average. Moreover, welfare payments are lower than can be accounted for by comparing per capita income and payments with other states. Conservatism and racism are independent factors which operate to keep payments low. Cf. Ira Sharkansky, *The Politics of Taxing and Spending* (Indianapolis: The Bobbs-Merrill Co., Inc., 1969). A major exception to this generalization seems to have occurred after 1965, however, in some northern states, particularly in metropolitan areas. Frances Piven and Richard Cloward argue that a liberalization of restrictions on welfare permitted a massive rise in AFDC rolls, and that the liberalization was due to fear by authorities of disorders among the urban poor. Cf. *Regulating the Poor* (New York: Random House, 1971).

Welfare departments, responding to these pressures, have in the past used the following techniques to keep expenditures low:

(1) requiring a residency period in the state before assistance is granted;
(2) using home investigations to establish the potential recipients' "good character," or a "suitable home";
(3) denying assistance when a recipient cohabits with a man, or permits a man to live in the home, even when the man is a spouse;
(4) refusing to participate in the optional AFDC-U program which provides assistance to families in which a father has been unemployed;
(5) conducting all eligibility and termination proceedings without due process of law.

With the exception of point four, all these practices have now been ended by the Supreme Court. Yet other techniques are still used to reduce expenditures. Those which have been approved by the courts include a Maryland law setting a ceiling on the amount which can be paid to any AFDC family, and a Texas regulation which permits the state to pay an AFDC family only 75 per cent of the "standard of need" computed by the state welfare agency.

Another local practice is manipulation of the rolls so that they can be cut systematically when farmers require agricultural labor. When the demand for labor ends, recipients are permitted to return to the rolls. In effect, the state uses general revenues to subsidize a low-wage sector of the economy, rather than permitting market forces to establish wage rates.

The present welfare system offers little incentive to work. A recipient receiving $3,000 in assistance for her family might take a part-time position and earn $360 which is exempt, but it is not likely that she will work full-time for the minimum wage at a salary of $3,200, when benefits will then be cut so much that (after taxes and social security deductions) she hardly comes out ahead by working. Restrictive eligibility tests also remove the incentive to work, since a person who leaves the welfare rolls runs the risk of being declared ineligible for assistance should she later become unemployed.

Assistance levels provided by the intergovernmental welfare system are below the poverty line set by the Census Bureau. The elderly poor, using a combination of assets, social security, and welfare payments, can sometimes rise above the poverty line, but the families that must rely wholly on public assistance are still below the line after the payments.[5] In 1971, when the poverty line for a family of four was set at about $4,000, the average monthly payment for an AFDC family (with slightly more than four recipients, on the average) was $186.83, for an annual payment of $2,241.96, well below the poverty line.

The system is not designed to lift the poor out of poverty. Instead, it embodies the "least benefit" principle: those on public assistance should not receive as much as the income of those paid least in the work force. Assistance payments are kept lower than wages to prevent upward pressure on wage rates; work incentives are maintained among those receiving assistance at or below the minimum wage of $1.60 per hour. Without that work incentive, some poorly paid workers might opt for welfare, and there would be an upward pressure on wage rates as a result of labor scarcity. Since those paid least in the work force are themselves below the "poverty line"—the minimum income necessary for subsistence living—the families receiving assistance are kept below that line as well.

Payment levels vary from state to state. In those southern states with the least developed economies and the lowest per capita income (and poorest paid work force), the rates of payment are lowest. On the other hand, in some northern states with more humane traditions, higher wage rates, and higher per capita income, the payment levels are far higher.

The gap between the southern states and the rest of the nation is increasing; between 1961 and 1971, the average monthly payment to AFDC families in the United States increased from $116.68 to $183.40, while the payment in the five lowest southern states increased from $37.28 to only $59.84. Not only has the intergovernmental financing and administration of the welfare system led to wide disparities in payment levels (violating the principle of horizontal equity), but it has increased the disparities over the last decade.

In spite of the fact that states and localities have used various devices to keep welfare rolls down, the rolls soared in the last decade: in August, 1960, there were 7,098,000 persons receiving assistance, while in August, 1972, the number had risen to 15,141,000. Most of the increase was in the AFDC program, and represented an increase in the urban poor on the rolls. The percentage of black families in the AFDC program also increased, so that by 1971 they constituted 43.1 per cent of AFDC families.[6] The upsurge in the AFDC rolls, combined with the change in color composition, has led to increasing costs and voter resentment of the welfare program.

The "taxpayers revolt" against welfare has been fueled by the dramatic increase in welfare costs at all levels of government. The following table indicates the increases in the past decade:

[5] On the effect of transfer payments of all types on the income structure of American families, see Robert J. Lampman, "How Much Does the American System of Transfers Benefit the Poor?" (University of Wisconsin, Institute for Research on Poverty, 1966). On the effect of payments to the elderly, see Raymond Munts, "Minimum Income as a Retirement Policy Objective," statement to Joint Economic Committee, Subcommittee on Fiscal Policy, *Old Age Income Assurance,* Part II, December, 1967, pp. 297–8.

[6] Welfare statistics for AFDC recipients are presented in "Research Note: Changes in AFDC, 1969–71," *Welfare in Review,* Vol. 10, No. 2, March–April, 1972, pp. 28–32.

Welfare Payments (in thousands of dollars)

	1959–60	1965–65	1971–72
Federal	$2,057.5	$3.185.4	$11,793.1
State and local	1,984.7	2,689.5	9,652.8

Source: Alfred M. Skolnik and Sophie Dales, "Social Welfare Expenditures, 1971–72," in *Social Security Bulletin,* December, 1972 p. 3.

The expenditure rise was felt most strongly at the state and local levels: between 1959 and 1964 the average annual increase in state welfare expenditures was 15.5 per cent, while between 1965 and 1969 that rate increased to 24 per cent, making welfare expenditures the fastest growing items in state budgets.[7] As a consequence, states and cities introduced new taxes (such as income and sales taxes) and increased tax rates to balance their budgets.

In sum, the intergovernmental system leads to incentives for state and local officials to keep welfare rolls down and discriminate against the working poor. It locks the poor into an income structure which keeps them below the poverty line and offers no incentive to work. In spite of the restrictive and dehumanizing administration of the program, the welfare rolls continue to rise and costs continue to increase, straining the resources of states and localities. The system has been condemned by two presidential commissions, by Presidents John F. Kennedy, Lyndon B. Johnson, and Richard M. Nixon, by members of the congressional committees that legislate for the program, by the United States Governors Conference, and by both political parties.[8]

PROSPECTS FOR JUDICIAL POLICY-MAKING

In the 1960's, some lawyers representing welfare recipients hoped that litigation could be used to develop national standards for the administration of the system, in much the way standards were being established for police practices, state legislative reapportionment, and the desegregation of school districts.

The Supreme Court, in response to the litigation, did impose certain standards of due process on eligibility and termination hearings of local welfare agencies.[9] But while these decisions did ease eligibility requirements and contributed to the increase in the rolls in the late 1960's, they did not affect the low payment levels.

LEGISLATIVE REFORMS

In recent years, the welfare system has been partially nationalized by legislation. As a result of congressional initiatives led by the Democrats, the food stamp program, funded entirely by the federal government, became a mandatory part of local welfare programs. A family of four with an income below $360 per year receives without charge food stamps which can be redeemed at stores for food worth $108 per month. A family with an income of $2,000 would pay $500 for these stamps, while a family with an income of $4,000 would pay $1,080. The program under national administration expanded from 3.2 million to 10.5 million recipients by 1971. Because it is based on need alone, non-aged childless couples and the working poor (ineligible for assistance payments) may buy stamps.

Legislation proposed by the Nixon administration and passed in Congress in 1972 will partially nationalize aid to the aged, the blind, and the permanently and totally disabled by January 1, 1974. The federal government will establish a "floor" level of payments for these three categories, and provide that states may supplement payments so that beneficiaries will not receive less under the new assistance levels than they did under the old programs. The table below indicates past and projected benefit levels:

Program	*Monthly Payment Levels* (individuals) 1960	1970	1974
Old Age Assistance	$58.90	$ 77.95	$130
Aid to the Blind	67.45	104.35	130
Aid to Permanently and Totally Disabled	56.15	97.65	130

Source for first three columns: Table 15, "Public Assistance Recipients and Payment by Program," in *Social Security Programs in the United States* (Washington, D.C.: U.S. Government Printing Office, 1971).

Although the average payment levels will increase, in some states recipients will receive less assistance unless state supplements are added. In New York state the average monthly payment to individuals under current programs in 1972 was $185 (including additional food and rent allowances). The legislation permits states to supplement the federal payment, provided that outlays are limited to the total expendi-

[7] Thomas F. Fleming, Jr., "State and Local Government Spending in 1975," *Monthly Labor Review,* Vol. 94, No. 8, August, 1971, offers data on past and projected levels of state spending.

[8] Nixon's message is reprinted in "Current Documents," *Current History,* November, 1971, pp. 297–299, 301, 308. The Advisory Council on Public Welfare, representing the viewpoint of professional welfare bureaucrats, proposed nationalization of the system in "Having the Power, We have the Duty" (Washington, D.C.: U.S. Government Printing Office, 1966). A national commission appointed by President Johnson recommended a national income plan in *Poverty Amid Plenty,* Report of the President's Commission on Income Maintenance Programs (Washington, D.C.: U.S. Government Printing Office, 1969). The National Assembly for Social Policy and Development, a policy council representing 80 voluntary and governmental organizations and 350 local, state, and regional welfare planning bodies, recommended nationalization of the welfare program on April 19, 1972. The National Governors' Conference, at its 61st Annual Meeting, August 31–September 3, 1969, voted 49-1 for nationalization of the welfare system. On attitudes of congressional leaders see Bill Cavala and Aaron Wildavsky, "The Political Feasibility of Income by Right," *Public Policy,* Vol. 18, Winter, 1970, pp. 322–323.

[9] *Goldberg v. Kelly,* 397 U.S. 254, *Wheeler v. Montgomery,* 397 U.S. 280. For a discussion of the role of the Supreme Court, see the article by Samuel Krislov in *Current History,* July, 1973.

ture by the state for these programs in the 1972 fiscal year.

Because these programs will be administered on a national basis, with uniform eligibility requirements and regulations, coverage will broaden in 1974 from 3.3 million to 6.3 million persons, with most of the projected increase in the Assistance to the Aged. States will be relieved of approximately $1 billion in expenditures, while the cost to the federal government will be $1.5 billion. The only additional increase in costs to the states will occur as the elderly apply for Medicaid programs, funded in part by the states.[10]

The largest welfare program, Aid to Families with Dependent Children, with 11 million recipients in 1972, will not be affected by the 1972 legislation. In fact, present plans in the Nixon administration's 1974 budget anticipate a reduction in the percentage of federal funding for the program, based on implementation (at an unspecified time in the near future) of a regulation that would end federal payment to the states for AFDC assistance to ineligibles. HEW estimates that 6.8 per cent of recipients in AFDC are ineligible, and that if the regulation were implemented in 1973 an estimated $659 million could be withheld from the states.[11] (Of course, such a regulation offers the states little incentive to weed ineligibles from the rolls, since by so doing they reduce the amount of federal funds reimbursed to them for payments). The present goal of the Nixon administration is to decrease federal financial participation in the AFDC program, while increasing state administrative autonomy so that rolls can be stabilized or reduced in the name of welfare "reform."

With recent congressional action ending hopes for passage of the President's Family Assistance Plans,[12] and the administration planning for a reduction in the federal role in the AFDC program for fiscal year 1974, any discussion of nationalizing the AFDC program may seem premature. Major outlays in the 1970's are more likely to be made for national security, environmental and energy programs, and more comprehensive medical benefits.

A NATIONALIZED WELFARE SYSTEM

Yet nationalizing the welfare system would offer billions of dollars of fiscal relief to states and localities. At the height of the states' fiscal crisis, 1969–1972, welfare reform was evaluated almost entirely in that context. In 1973, the sense of urgency has diminished, since most of the states have experienced static or declining rolls as a result of changes in eligibility requirements, the computerization of rolls to prevent fraud, and a 20 per cent rise in social security payments that removed some elderly poor from the rolls. The partial nationalization of three programs beginning in 1974 will offer an additional $1 billion–$2 billion of relief. Finally, the general revenue-sharing program passed by Congress in 1972 provides the states with $30.1 billion between 1972 and 1976. The large industrial states are reporting small projected budget surpluses for fiscal 1973 without resorting to tax increases. Because the fiscal crisis has diminished, other consequences of nationalizing the welfare system may be more significant.

Nationalization would certainly expand coverage. With the federal government paying the costs, there would be no incentive for states and localities to keep rolls artificially low by denying benefits to those eligible for assistance. Nationalization might also increase labor mobility, since recipients would lose their fear of migrating in search of employment. At the same time, it might have a marginal effect on migration from low benefit to high benefit states, although careful studies indicate that benefit levels have little effect on decisions to migrate.[13] Since benefit levels would be set at equivalent levels in all states (perhaps varying slightly to reflect differences in the cost of living), there would be equity between recipients.

Other consequences of nationalizing the system depend on policy choices embodied in the new program. Three policy choices may affect costs and benefits:

(1) *Benefit levels.* High benefit levels would increase costs to the federal government and benefits to recipients. These levels may be politically unacceptable due to inflationary impact on the budget, wage rates, and prices. Yet low benefit levels would make many AFDC recipients worse off under a nationalized program than they were before.

(2) *Work incentives.* Subtracting all earned income from benefit levels would reduce the costs and the incentive of recipients to work. The greater the percentage of earned income recipients are permitted to keep, the greater the work incentive, yet the higher the program cost and inflationary impact.

(3) *Work requirements.* Strict work requirements may lock the poor into dead-end agricultural and domestic employment. It may also discriminate against working poor ineligible for welfare by keeping them under the poverty line. Yet a work requirement may involve substantial costs for day-care programs, training and referral, and tax incentives for industry to provide employment. Not imposing work requirements for AFDC families makes reform politically unacceptable.

These three policy dimensions are illustrative of the

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[10] The medical programs for indigents are described in *Social Security Programs in the United States,* pp. 104–106.

[11] *The National Journal,* Vol. 5, February 3, 1973, p. 150.

[12] See the article by Robert McNown in this issue.

[13] Gilbert Y. Steiner, in *The State of Welfare* (Washington, D.C.: The Brookings Institution, 1971), summarizes studies which show that a high correlation exists between the movement of whites and high welfare payments, but that there is almost no correlation between migration patterns and movements of non-whites. This conclusion (on page 87) is so contrary to the conventional (and racist) wisdom that it bears special mention.

choices that must be made in attempting to reform the welfare system. While it would be impossible to explore the impact of each one in a short paper, it might be useful to "cost" some of the alternatives in order to demonstrate some of the trade-offs which would have to be considered.

SIMULATING WELFARE POLICIES

In order to make the calculations easier to follow, it may help to construct a simplified model of the American welfare and employment structure. A model of a mythical United States of America, Simplified (USAS) might look like this:

(1) Fifty million families consisting of four persons in each family. Twenty-eight million families have incomes over $8,000; four million have incomes of $7,000; four million earn $6,000; four million earn $5,000; and four million earn $4,000. These 44 million families are *over* the "poverty line" which is set at $4,000 for a family of four.

(2) There are three million families or "working poor" in which the family income is $3,000, since workers are paid at the minimum wage. These families are ineligible for welfare in the present system.

(3) There are three million female-headed families presently on AFDC: in ten states benefits are $1,000, in ten $1,500, in ten $2,000, in ten $2,500, and in ten $3,000. In no state do benefits reach the poverty line. One million families are headed by an "employable" woman, should social policy specify that a woman with children over six years of age should work.

The first policy we might propose for the USAS would be to lift the poor above the poverty line with payments of $4,000. For the three million AFDC families the cost would be $12 billion. In addition, the working poor would probably enroll rather than continuing to work, at a cost of $12 billion. Families now earning $4,000 would prefer to receive payments, and we may assume that half the families earning $5,000 and one quarter of the families earning $6,000 would prefer to trade leisure for income and join the program. The cost for all these families would be $28 billion. The total cost of the program would be $52 billion. At an unacceptable cost, it would end work incentives for 13 million families. It would be highly inefficient, since over half the cost of the program would benefit the non-poor.

One solution to the problem would be to impose strict eligibility requirements: only those unable to work could receive assistance. Two million AFDC families would then be eligible at a cost of $8 billion. One million AFDC families would be cut from the rolls and obtain jobs paying approximately $3,000. The three million working poor would continue to receive no benefits, and would remain below the poverty line. The program would cost $8 billion and benefit two-thirds of the AFDC recipients. However, four million families would receive less, and four million families would receive the same income, as these non-working families. How can welfare policy justify giving a larger income than the income working families earn to families in which no one works?

To remedy the inequity against the working poor, the 100 per cent offset rate of earned income might be lowered. The offset rate is the rate at which earned income lowers the assistance benefit. In order to calculate benefits to a family that works, we apply the following formula: $P = A - (rI)$; P is the payment to the family, A is the assistance level, r the offset rate, and I the earned income. Our policy then calls for $4,000 in assistance payments (A) at an offset rate of .5 (r). Assume that the income of the working poor remains $3,000 (I). In this case those with no income continue to receive $4,000 at a cost of $8 billion. Each of the working AFDC and working poor now earn $3,000 and receive $2,500 in assistance [$4,000 – ($3,000 × .5).] The cost in payments to these families is $10 billion.

Note that the formula would also make eligible those families earning substantially more income: workers earning $4,000 would receive $2,000 in assistance; at $5,000 in income the payment would be $1,500, at $6,000 the family would receive $1,000, and workers earning $7,000 would be eligible for a payment of $500. The total cost to the government of these payments to workers already above the poverty line would be an additional $20 billion, making the total cost of the plan $30 billion. In order to provide work incentives for the poor and higher income for the working poor rather than the non-working poor, we would have to increase costs substantially, and pay two-thirds of the costs to the non-poor. Any additional decrease in the offset rate would increase work incentives for the poor, while at the same time raising costs greatly.

Our simplified model demonstrates a number of points:

(1) There is no perfect welfare reform. Each policy dimension involves tradeoffs between total costs, recipient income levels, and equity between workers and non-workers.

(2) Providing work incentives through lowering offset rates is prohibitively expensive unless payment levels are set so low that they end the advantages of na-

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"It is cruel and senseless for a nation to talk about the work ethic while those in power discuss the need to increase unemployment. With a labor force of some 86 million persons, even a one percentage point rise in the unemployment rate condemns an additional 860,000 people to joblessness."

Needed: A National Commitment to Full Employment

By Helen Ginsburg
Assistant Professor of Economics, Long Island University's Brooklyn Center

More than 300 years ago, the pioneering English economist, Sir William Petty, advocated a new and daring approach to the growing problem of unemployment.[1] In contrast to actual practice in seventeenth century England, Petty was convinced that the unemployed "ought neither to be starved, nor hanged, nor given away." That idea seemed absurd to wealthy Englishmen at the onset of capitalism, as did his belief that lack of employment, rather than innate laziness, might be the real cause of the miserable condition of the unemployed.

Ironically, Petty was motivated by hard-headed economic logic rather than by humanitarianism. He reasoned that the unemployed represented an untapped source of labor available to enrich the nation and suggested that they be provided with public employment to enable them to build highways, plant trees, build bridges, and so forth—a proposal still to gain acceptance in the United States.

The lot of the unemployed poor was not a happy one in Petty's time nor in subsequent centuries. The continued spread of poverty and unemployment in England during the initial transition to industrial capitalism convinced the upper classes that relief caused poverty by encouraging dependency. So unemployed paupers were put to work. But this work was punishment rather than dignified employment—and the misery of the paupers continued unabated. The many workhouses that were established throughout England, and later in America, served as punitive institutions to discourage the poor from relying on relief. "The workhouses in which the paupers were confined," observed historian Paul Mantoux, "came to be much more like a prison than a refuge. The fear it inspired was relied on to frighten away all who had not reached the last stage of destitution."[2]

Some of the "idle poor," mostly children, were provided with "real" jobs outside the workhouses—in the prison-like textile factories that sprang up in England during the Industrial Revolution:

> The parishes . . . were only too anxious to get rid of their paupers. Regular bargains, beneficial to both parties if not to the children, who were dealt with as mere merchandise, were entered into between the spinners on the one hand and the Poor Law authorities on the other. Lots of fifty, eighty or a hundred poor children were supplied and sent like cattle to the factory where they remained imprisoned for many years.[3]

Even with the passing of the worst abuses of the industrial revolution, unemployment remained. Indeed, bouts of unemployment recurred more or less periodically in all industrial capitalist nations. Attempts to understand these phenomena have left us with sharply different interpretations of the nature and significance of unemployment—and with equally varied policy prescriptions.

Socialist theoretician Karl Marx, writing in the nineteenth century, considered depressions and unemployment inevitable under capitalism.[4] Marx concluded from his analysis that ever-worsening depressions would contribute to the weakening of capitalism. Eventually, with the help of a revolutionary working

[1] Sir William Petty, from *A Discourse of Taxes and Contributions* (London: 1667), in Helen Ginsburg (ed.), *Poverty, Economics and Society* (Boston: Little, Brown, 1972), pp. 12–14.

[2] Paul Mantoux, *The Industrial Revolution in the Eighteenth Century* (1905), rev. ed. (New York: Harper Torchbooks, 1962), p. 432.

[3] *Ibid.*, pp. 410–411.

[4] For views of Marx, Say, Marshall and Keynes, see any book on the history of economic thought. Especially good for non-economists are Robert L. Heilbroner, *The Worldly Philosophers* (New York: Simon and Schuster, 1967), Daniel R. Fusfeld, *The Age of the Economist* (Glenview, Ill.: Scott, Foresman and Co., 1966) and Jacob Oser, *The Evolution of Economic Thought* (New York: Harcourt, Brace and World, 1963).

class, the sick system would collapse. Humane socialism would be born out of the ashes of inhumane capitalism, ending forever the scourge of unemployment.

In stark contrast to Marx's ideas were those of a long line of influential economists, stretching from the late eighteenth century into the twentieth century. The Frenchman Jean Baptiste Say, the Englishman Alfred Marshall, and many other classicists and neo-classicists stressed the transitory nature of unemployment. In one way or another, they minimized the extent of involuntary unemployment and even denied the possibility of its existence. Belief in the self-regulating nature of capitalism permeated their doctrines. They advocated laissez-faire: the government should keep its hands off the economy—even in times of unemployment.

The Great Depression of the 1930's shattered the commanding authority of neo-classical theories. More than the stock market had crashed.[5] The economy was in near-ruin. Poverty, mass unemployment, conflict and chaos were everywhere. Nearly 13 million people were out of work; miners earned $1.75 a day; soup kitchens and bread lines dotted the landscape; and labor was picketing, marching, demonstrating and sitting-in. Unemployment skyrocketed from 3 per cent in 1929 to 25 per cent in 1933. From 1931 to 1940, joblessness never fell below 14 per cent, and in four years it averaged more than 20 per cent.[6]

In 1936, in the midst of this catastrophic depression whose tentacles left no capitalist nation unscathed, the British economist John Maynard Keynes introduced theories that provided new intellectual support for active government intervention in the economy. These Keynesian or "new economic" theorists eventually gained widespread acceptance and came to dominate economic thinking in the capitalist world.

Like Marx before him, Keynes acknowledged capitalism's built-in tendency to generate high unemployment. Unlike Marx, however, Keynes was a staunch supporter of capitalism. With active government intervention in the economy, argued Keynes, full employment could be achieved under capitalism. With enough government expenditures, sagging demand in the private sector could be bolstered and the economy could be pushed to full employment.

In the end, conditions proved more crucial than theory in determining policy. Armies of the unemployed were clamoring for jobs. The New Deal strategy to end unemployment antedated, but bore a remarkable resemblance, to Keynesian theory. The most notable of the myriad government-sponsored work projects was the productive but much-maligned W.P.A. There were also indirect attempts to increase employment by stimulating private business. Adherents of laissez-faire attacked New Deal efforts as too massive, but they were not massive enough to end unemployment, which still averaged nearly 10 per cent in 1941.

With World War II, conditions changed abruptly. From 1943 to 1945, unemployment remained below 2 per cent, dropping to a record low of 1.2 per cent in 1944. Eventually the armed forces absorbed some 11.5 million men and women. With millions of new war-induced civilian jobs to fill, severe labor shortages developed.[7] People whose labor had previously been unutilized or underutilized became valued workers and helped to keep the wartime economy running. Applicants who would have been told in other times that they were "too old," or "disabled," or that they "belonged in the kitchen" were hired. Faced with a tight labor market and government pressure, racial discrimination by employers also abated somewhat, and black workers scored some employment breakthroughs in industry.

The most extended period of full employment this nation has ever known occurred during World War II. Clearly, a tight labor market helped disadvantaged workers. Full employment also proved to be a powerful weapon against poverty. With jobs in hand, millions of breadwinners left the ranks of the poor.

Even full employment did not erase the memory of the depression. There was widespread fear of a recurrence after the war. Liberal and labor circles believed that the country should never again tolerate the plague of unemployment; that a nation capable of total mobilization for war could plan for a peaceful postwar economy, with guaranteed jobs for all.

The Full Employment Bill of 1945 was the political expression of these sentiments. The bill, introduced by liberal senators, declared that:

> all Americans able to work and seeking work have the right to useful, remunerative, regular and full-time employment, and it is the policy of the United States to assure the existence at all times of sufficient employment opportunities to enable all Americans who have finished their schooling and who do not have full-time housekeeping responsibilities to freely exercise this right.[8]

But Congress was unwilling to accept the concept of the right to employment. Despite Senate approval,

[5] For an eyewitness picture of the depression era, see David A. Shannon, *The Great Depression* (Englewood Cliffs, N.J.: Prentice-Hall, 1960).

[6] Unless otherwise specified, data are from or derived from *Employment and Earnings* (U.S. Department of Labor, Bureau of Labor Statistics), Vol. 19, No. 8, February, 1973. Other good sources of data and information on unemployment are the *Monthly Labor Review* (U.S. Department of Labor, Bureau of Labor Statistics) and the annual *Manpower Report of the President* (U.S. Department of Labor).

[7] Manpower policy in the depression and afterward is analyzed by Garth Mangum, *The Emergency of Manpower Policy* (New York: Holt, Rinehart and Winston, 1969).

[8] Council of Economic Advisers, "The Employment Act: Twenty Years of Experience," in John A. Delehanty (ed.), *Manpower Problems and Policies* (Scranton, Pa.: International Textbook Co., 1969), p. 5.

by 75 to 0, the bill was defeated by conservatives in the House of Representatives.[9] What finally emerged in 1946 was the present law, the Employment Act of 1946. This weaker substitute nevertheless states that the federal government has the responsibility to create conditions:

> under which there will be afforded useful employment opportunities, including self-employment, for those able, willing and seeking to work, and to promote maximum employment, production, and purchasing power.[10]

To achieve these aims, the federal government was committed to use "all practical means consistent with its needs and obligations and other essential considerations of national policy." But the concrete goal of the right to employment—in effect, guaranteed employment—was replaced by the more vague goal of "maximum" employment. With plenty of room for flexible interpretations, future governments were even given leeway to opt against full employment, if its attainment seemed inconsistent with other policy goals.

Since passage of the Employment Act of 1946, unemployment has remained far below the depression levels of the 1930's; but it has also lingered well above the full employment levels of World War II. In recent decades, joblessness has been substantial and persistent, and has been drifting upward. The trends are disturbing. For example, from 1946 to 1959, unemployment averaged 4.2 per cent, compared with 4.9 per cent from 1960 to 1972. In these 27 years, unemployment has risen above 5 per cent 12 times but has dipped below 4 per cent only 10 times. Most disquieting of all, since 1948, unemployment has never gone below 4 per cent, except in wartime—from 1951 to 1952 and again from 1966 to 1969.

Unemployment in the United States is substantially higher than it is in many industrial nations. From 1961 to 1970,[11] unemployment averaged 4.7 per cent in the United States, compared to 0.6 per cent in Germany, 1.3 per cent in Japan, 1.5 per cent in Sweden, 2 per cent in France and 3.1 per cent in Great Britain. But contemporary American society on the whole exhibits little concern over rates of unemployment that would be politically intolerable elsewhere. In Paris, demonstrations for full employment occur when unemployment hits 2.6 per cent. Yet, as Senator Alan Cranston (D., Calif.) observed in testimony on behalf of the Public Service Employment Act of 1972: "In this country the rate hovers at 6 per cent and nobody seems to care."[12]

Does callousness about unemployment stem from anxiety over inflation? Many—but not all—economists feel there is a trade-off between unemployment and inflation (the Phillips curve, in technical jargon). According to this reasoning, driving down unemployment causes prices to rise and, conversely, increasing unemployment decreases the rate of inflation. Consequently, in many circles, even the concept of full employment has changed over the years. No longer does the term focus on human beings. No longer does it mean that all jobseekers will find jobs. Instead, it focuses on price changes. *Full employment has been redefined to mean the unemployment rate considered consistent with the degree of price stability desired by policymakers.*

While he was President Richard Nixon's director of the Office of Management and Budget, George Schultz stated that "the definition of unemployment we [government] have used in calculating full employment is a rough four per cent unemployment."[13] There are even hints that this figure may be revised upward soon. Witness a recent Treasury Department report: "Over the next few years a four per cent unemployment rate as a national goal is not feasible without significant inflation."[14]

This economy rarely operates with only four per cent unemployed. But suppose unemployment fell to that level. With our present civilian labor force of about 86 million workers, 3.4 million of them would still be without jobs. Only in an Alice-in-Wonderland world could that be considered "full employment."

With price stability given top priority, the reduction of unemployment has become a secondary goal of government—if indeed it is a goal at all. Keynesian measures—deliberate use of fiscal and monetary policy—are not vigorously applied to combat unemployment, lest prices rise. Even worse, strategies are advocated to hold down inflation by increasing unemployment. Thus, when unemployment fell to 3.6 per cent in 1968, the Business Council worried about inflation. That influential group, mainly corporate presidents and board chairmen, wanted the next President to take deliberate steps to reduce the pace of inflation—even if those steps meant increasing unemployment to 5.5 per cent.[15] By 1970, unemployment had already risen to 4.9 per cent. Yet Andrew F. Brimmer, a Federal Reserve Board member, urged fighting inflation with measures that would necessitate "a somewhat higher level of unemployment."[16]

Concern about inflation can, at best, only partly ex-

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9 Garth L. Mangum, *op. cit.*, p. 22.

10 *Ibid.*, p. 21.

11 Constance Sorrentino, "Unemployment in Nine Industrialized Countries," *Monthly Labor Review*, June, 1972, pp. 29–33. Derived from Table 1, p. 30.

12 U.S. Senate Committee on Labor and Public Welfare, Sub-Committee on Employment, Manpower and Poverty, *Hearings on Comprehensive Manpower Reform*, 92nd Cong., 2nd Sess., Part 5 (Washington, D.C.: U.S. Government Printing Office, 1972), p. 1647.

13 U.S. Congress, Joint Economic Committee, *Hearings on the 1972 Economic Report of the President*, 92nd Cong., 2nd. Sess., Part 2 (Washington, D.C.: U.S. Government Printing Office, 1972), p. 325.

14 *Ibid.*, p. 325.

15 Eileen Shanahan, "Executives Back Job Cut in a Split with President," *The New York Times*, October 21, 1968.

16 Edwin L. Dale, Jr., "'Necessary' Rise in Idle Predicted," *The New York Times*, June 21, 1970.

plain our attitude toward unemployment. Other nations, too, must cope with inflation, which in recent decades has generally been greater in Europe than in the United States. This is still true, despite the rapidity of recent price rises in the United States. But strong political pressure from labor and the left has committed the governments of most industrial nations in Europe to full employment—even if the consequence is rising prices. Lacking sufficient pressure, the United States government gives priority to the quest for stable prices—even if the consequence is high unemployment.

What else accounts for America's complacency about unemployment? Does indifference stem from ignorance of the true extent of unemployment? In 1972, unemployment was 5.6 per cent, and 4.8 million persons were jobless. But official figures grossly understate the amount of unemployment. Let us cite just two examples: part-time workers and discouraged workers. Persons who work part-time usually do so out of choice. But some do so out of necessity, when full-time work is unavailable. In official statistics, part-time workers who want full-time jobs but are unable to find them are considered employed.[17] Actually, they are partly unemployed and may suffer sharply reduced earning power.

Consider also the discouraged or hidden unemployed. Jobless men and women who want to work but have become so discouraged that they have given up searching for jobs are not counted as unemployed. They are classified as "not in the labor force," and their presence goes unrecorded in the official unemployment count. If we add the 2.4 million involuntary part-time workers and the 765,000[18] discouraged unemployed to the inventory of the jobless, the magnitude of unemployment looks strikingly different. In 1972, at least 8 million persons were fully or partly unemployed, compared to 4.8 million persons officially unemployed.

Is it the composition of the jobless rolls that explains our society's insensitivity to the problems of the unemployed? Unemployment is no longer the mass affliction it was in the 1930's. It does not fall evenly on the whole population; nor does it strike at random. While most of the unemployed are neither poor nor black—and no one is absolutely immune—unemployment is selective, striking hardest and most disproportionately at those on the bottom rung of society's ladder. Unemployment tends to hit the same groups over and over again. Those with the most job insecurity and the least earnings are the most vulnerable: blacks, the poor, youths, unskilled workers and women. As blacks well know, the old adage, "last to be hired and first to be fired," is still true. The affluent and professional workers are more rarely unemployed, but it can happen. Unemployment among engineers in Seattle, editors in New York or college professors in California is dramatic, and newspapers and television document it. But unemployment and misery in the ghettos are constant, less interesting and ignored—except when cities burn.

The more familiar statistics obscure these sharp group differences in unemployment. Thus, unemployment was 5.6 per cent in 1972. But that is an average rate that masks the fact that unemployment was 5 per cent for whites, compared to 10 per cent for blacks.[19] The average rate can hold little consolation for 16- to 19-year-olds in the labor force: 16.2 per cent of these white youths and 33.5 per cent of the black youths were jobless. At upper occupational levels, 2.4 per cent of professional and technical workers and 1.8 per cent of nonfarm managers and administrators were out of work. But on the bottom, 10.3 per cent of nonfarm laborers were unemployed.

The women's liberation movement has not yet eliminated the male-female unemployment rate gap. In 1972, male unemployment was 4.9 per cent; female unemployment was 6.6 per cent, about one-third higher, and the differential has widened considerably over the past two decades. Yet the earnings of married women enable many families to climb from near-poverty to more decent living standards. And for families headed by working women, unemployment is often the first step on the road to welfare. Even female heads of households experience greater unemployment than their male counterparts—5.4 per cent for women contrasted with 3.4 per cent for men in 1971.[20]

Despite Freedom Rides, sit-ins, demonstrations and riots, the unemployment rate for blacks is still about double that of whites—a ratio practically unchanged for two decades. Even the statement that 10 per cent of blacks are unemployed compared to 5 per cent of whites masks much of the problem. In ghettos, the official unemployment rate is just the tip of the iceberg. By the mid-1960s, the Bureau of Labor Statistics (BLS) recognized the relative irrelevance of using official unemployment figures to describe the state of unemployment and underemployment in urban slums and designed a "subemployment" index, which included not only the official unemployed but also groups not normally counted in that category. To the official unemployed were added involuntary part-

[17] For details on measuring unemployment, see U.S. Department of Labor, *How the Government Measures Unemployment,* Bureau of Labor Statistics Report No. 418, p. 1973.

[18] Paul O. Flaim, "Discouraged Workers and Changes in Unemployment," *Monthly Labor Review,* March, 1973, Table 1, p. 10.

[19] Statistics relating to blacks in this article refer to "Negroes and other races." Negroes comprise about 92 per cent of the persons in this statistical category.

[20] Paul O. Flaim and Christopher G. Gellner, "An Analysis of Unemployment by Household Relationship," *Monthly Labor Review,* August, 1972, pp. 9–16, Table 3, p. 14.

time workers, heads of households working full-time but earning less than $60 a week (the poverty level at that time), male "discouraged" unemployed workers, and a few similar groups.[21]

Using this index, the BLS surveyed 10 slum areas. Their findings spelled catastrophe. In January, 1967, with nationwide unemployment at 3.7 per cent, official unemployment in these slums was 10 per cent. But *subemployment* ranged from 24 per cent in Boston to 47 per cent in San Antonio. Everywhere the pattern was repeated: Bedford Stuyvestant, 28 per cent, East Harlem, 33 per cent, Philadelphia, 34 per cent, St. Louis, 39 per cent. The subemployment survey got to the heart of the problem: unemployment and the inability to earn an adequate income. "If a third of the people in the nation couldn't make a living," said Labor Secretary Willard Wirtz in a confidential memo to President Lyndon Johnson, "there would be a revolution."[22] Wirtz recognized that for people in the slums, the depression of the 1930's had never ended. But other Americans, for whom that depression was only a chapter in a history book, have chosen to ignore that fact.

By the summer of 1967, riots reconfirmed the calamity of ghetto life. The report of the National Advisory Commission on Civil Disorders reiterated and supplemented the BLS findings.[23] The commission found that an unemployment crisis was only part of the problem. Equally disturbing was the undesirable nature of many jobs open to Negroes and other minorities. Negro men were more than three times as likely as white men to hold low-paying, unskilled, or service jobs, which tend also to be part-time, seasonal and dead-end jobs. The commission singled out the concentration of Negro men in the lowest occupations as the most important cause of poverty among Negroes.

Riots are only one manifestation of despair. Subemployment has a human face. As Elliot Liebow has said,[24] a man without a job or a working man who is unable to support his family is being told clearly and for all to hear (especially his family) that he is not needed. No man can live for long with this terrible knowledge. Liebow's extensive study of Negro streetcorner men showed that the youths who have never worked but can foresee their probable future and the men who are unable to support their families retreat to the streetcorner. There, in self-defense, they join with others like themselves to construct a world which gives them some minimum sense of belonging and being useful.

The welfare explosion of the 1960's centered considerable attention on fatherless families and on the need for "work-fare" programs for welfare mothers. The urgent need for decent jobs for ghetto men failed to arouse equivalent concern. Yet male subemployment has been cited as one of the causes of fatherless families.

The National Commission on Civil Disorders did recognize the significance of male subemployment and called for more and better jobs. In March, 1968, the commission advocated, among other actions, creation of two million new jobs within three years. But by March, 1971, because of a recession, there were actually 2.1 million more unemployed.

It is comforting—but untrue—to think that subemployment is no longer a major ghetto problem. A very recent analysis of Census Bureau volumes on *Employment Profiles of Selected Low Income Areas* by a subcommittee of the Senate Committee on Labor and Public Welfare confirms the persistence of widespread subemployment.[25] Using a subemployment index conceptually similar to that of the BLS in 1967, but with a $2 an hour cut-off point, the subcommittee tied the subemployment index to the official $4,000 poverty budget for urban families of four. In late 1970 and early 1971, subemployment averaged 30.5 per cent in 60 major poverty areas of 51 cities.

The subcommittee also developed an alternate index of subemployment using a $3.50 an hour cutoff point as a proxy for the BLS "lower living cost" budget for an urban family of four. That budget averaged $6,960 nationally. This is substantially higher than the "poverty budget" but represents a realistic estimate of the cost of a more socially acceptable standard. The findings were astounding. Fully 61.2 per cent of workers in poverty areas were unable to provide for their families at the "lower level living" standard.

Poor people, even those on welfare, as Leonard Goodwin has shown, are committed to the work

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[21] U.S. Department of Labor, *A Sharper Look at Unemployment in U.S. Cities and Slums*, 1967.

[22] U.S. Senate, *Hearings on Comprehensive Manpower Reform*, p. 2321 (Part 5).

[23] *Report of the National Advisory Commission on Civil Disorders* (New York: Bantam Books, 1968), especially Chs. 7 and 17.

[24] See Elliot Liebow, "No Man Can Live with the Terrible Knowledge that He is Not Wanted," *The New York Times Magazine*, April 5, 1970, pp. 28–29 and 129–133, and *Tally's Corner* (Boston: Little, Brown, 1967).

[25] U.S. Senate, *Hearings on Comprehensive Manpower Reform*, pp. 2276–2286.

"Perhaps the most tragic feature in committing the government to such a wrong-headed approach to modern poverty is that the commitment would divert resources and enthusiasm away from other, much more sensible policies. . . ."

Against a Federal Guaranteed Employment Program

By Dave M. O'Neill
American Enterprise Institute

This is 1973, not 1933. Stereotyped thinking notwithstanding, unemployment is no longer a significant cause of poverty. The vast majority of people who experience unemployment during any year are not members of the poverty population and, conversely, the vast majority of the poverty population does not experience involuntary unemployment. If modern poverty is related in any way to the labor market, it is via the low wages of the working poor. Government policy may have a role here, but definitely not in the form of large-scale job creation programs.

Moreover, even if there is some small amount of poverty that is the direct result of the inability of low-productivity persons to find jobs (even after a reasonable amount of search and at a wage realistic for their productivity), the chances that a large-scale public service employment program will alleviate this special problem are practically nil. Experience under the recent Emergency Employment Act program suggests that it is a lot easier to talk about creating jobs and filling them with very disadvantaged persons than it is actually to persuade local officials to behave in this way with the federal funds.

But perhaps the most tragic feature in committing the government to such a wrong-headed approach to modern poverty is that the commitment would divert resources and enthusiasm away from other, much more sensible policies: income supplements for the adult working poor; more generous welfare payments to the disabled poor; more and better developmental programs to enable the children of the poor to break the cycle of poverty and welfare. All these policy approaches will suffer from lack of funding and interest if a large commitment is made to the public job creation approach to poverty.

POVERTY, UNEMPLOYMENT AND THE LABOR MARKET

Table 1 gives the distribution of poor family heads and poor unrelated individuals according to work experience in 1971.[1] Note that fully half of all poor family heads and unrelated individuals live in poverty for reasons—old age, disability, disease and family disorganization—that are not only totally unrelated to unemployment but are also only remotely connected with the labor market in any way. For the other half, those who worked either full year, full time, or part year, their inability to obtain anything but low paying jobs, rather than their unemployment, is the major cause of their poverty. Although the annual incidence of unemployment among the working poor is about twice that among the working non-poor, the fact that only about half the poor are able to work means that unemployment is a very minor cause of poverty in the present United States economy.

This lack of significant connection between unemployment and modern day poverty will strike some readers as so unbelievable that it may be worthwhile to demonstrate the situation from another point of view—by looking at the classification of the unemployed according to various characteristics.

Table 2 shows various characteristics of the 4.4 million people who reported themselves unemployed during the survey week in February, 1973. The data on duration of unemployment suggest that the average length of a spell of unemployment is probably about 11 weeks. This is not likely to throw one into a life of poverty. In most states, unemployment insurance benefits go on for at least six months.

The data on reasons for becoming unemployed are

[1] This section draws heavily on an article by Jacob Mincer, "Poverty and the Labor Market," in *The National Bureau of Economic Research Survey of Research into Poverty Labor Markets: Final Report,* a report prepared for the Office of Economic Opportunity.

TABLE 1
Work Experience: Family Heads and Unrelated Individuals below the Low Income Level in 1971

	Family Heads (In thousands)	Family Heads Per cent of Distribution	Unrelated Individuals (In thousands)	Unrelated Individuals Per cent of Distribution
Total	5,231	100	5,151	100
Worked	*2,809*	*54.0*	*1,622*	*31.5*
Full time, full year	1,084	20.7	292	5.6
Part year (u)*	655	12.5	[1,330]**	25.4
Part year (other)	1,070	20.4		
Did not work	*2,422*	*46.0*	*3,530*	*68.5*
Unemployment	118	2.2	83	2.3
Other reasons	2,304	43.8	3,447	66.2

Source: Current Population Reports, Series P. 60, *Consumer Income,* No. 86, December, 1972.
* Those who gave unemployment as the reason for not working a full year.
** Data are not published showing the reasons for the part-year experience of unrelated part-year workers.

TABLE 2
Selected Characteristics of Unemployed Workers, Feb. 3, 1973 (seasonally adjusted)*

Characteristic	(In thousands)	Per cent of Distribution
Duration of Unemployment		
Total Unemployed	4,484	100.0
Less than 5 weeks	2,324	51.8
5 to 14 weeks	1,265	28.2
15 to 26 weeks	530	11.8
27 weeks and over	365	8.1
Reasons for Unemployment		
Total Unemployed	4,442	100.0
Lost last job	1,724	38.7
Left last job	671	15.1
Reentered labor force	1,377	30.9
Never worked before	684	15.4

Source: Employment and Earnings, Vol. 19, No. 4, October, 1972, Table A-12 and A-14.
* Because of independent seasonal adjustments of the component series the figures for total unemployed in this table only approximate the actual number of unemployed in February, 1973.

also enlightening. People who voluntarily leave jobs and workers just entering or reentering the labor force make up fully 61 per cent of the unemployed.

Clearly, one would find individuals who are living in poverty on account of unemployment only within the subgroup who have lost their jobs involuntarily and have also remained unemployed for a very long time. In February, 1973, there were approximately 125,000 unemployed adult males who were both job-losers and unemployed for 27 weeks or more.

Thus, to the extent that poverty is related at all to unemployment, the size of the job creation program that would be needed would be a very modest one, say about 100,000 job slots at the very maximum.[2]

However, one might still argue for a large-scale public job creation program for the poor on the grounds that the working poor, if not actually unemployed, are underemployed, and that the government should provide jobs that pay a higher wage.[3] In considering the merit of this proposal, it is useful to distinguish mature adults and the elderly working poor from the young adult and teenage working poor.

Programs should be developed for the young working poor to provide financing, information and motivation to lead these young people into the mainstream of skill acquisition and career planning. Putting them into artificially created public employment jobs would amount to saying that they have no potential for development. Given the uncertain tenure and possibly depressing nature of the job slots that would be created, this approach might also very well do more harm than good.

[2] This figure is arrived at by dividing the total number of poor people who experienced any unemployment at all in 1971 by 5 and dividing the result in half. The total number experiencing unemployment was estimated from the data in Table 1 to be about 1,000,000. This estimate assumes that about 10 per cent of the unrelated part-year workers experienced unemployment. Dividing by 5 assumes that the average duration of unemployment is about 11 weeks. Dividing the result in half allows for the usual amount of short-duration unemployment experienced by all groups in the labor force.

[3] See Harold Sheppard's article in *The Political Economy of Public Service Employment,* Sheppard, Harrison and Spring, eds. (Indianapolis: Heath, 1972).

It is probably true that not much can be done for the older working poor via programs for promoting skill acquisition and geographic mobility. Thus it is tempting to argue that they should be placed in specially created public jobs which would have higher rates of pay and would yield incomes above the poverty line. The argument against this superficially appealing approach is straightforward—there are far less costly ways of augmenting the income of the working poor.

Some form of negative income tax scheme has obvious administrative advantages over public job creation programs for augmenting the incomes of the working poor. In addition, one must recognize that many of the "created" jobs would turn out in practice to be "make-work" jobs with very little socially useful output involved. Thus, in transferring a poor worker from his private sector job, society would be exchanging his positive (albeit small) social product in the private sector for his negligible or zero product in the public sector. This would constitute a real (although not highly visible) cost of the job creation approach. Finally, there is the problem of the morale and productivity of non-poor public sector workers. They have presumably obtained their jobs on the basis of merit-related criteria. How would they react to the preferential treatment that would be accorded poor workers?

As a final point, it is important to note that regardless of what government program is adopted to aid the working poor, general economic growth factors are well on their way toward eliminating the phenomenon of "working poverty." In 1959, 4.8 million male family heads who worked lived in poverty; in 1971, the number had dropped to 2 million. The major cause of this trend was undoubtedly the growth in the productivity of poor workers because of growth in the economy. If the 1959–1971 trend is projected into the future, it appears that the phenomenon of working poverty, at least among male-headed families, will disappear in about 15 years.

PUBLIC EMPLOYMENT PROGRAMS

Placing the working poor into public jobs is a bad idea in itself. Moreover, even the notion that in practice large numbers of the poor will actually end up in the public jobs that are created is overly optimistic.

This assertion will strike many as implausible. How can it be that a modern government like the United States cannot set up and administer a program that would accomplish such a simple objective—to use tax revenues to place poor people in public service jobs? All that has to be done, it would appear, is to mandate in the legislation creating the program that only poor people be hired with the funds appropriated for the program. Unfortunately, in practice, the real world and human nature being what they are, things are not that simple. Behold the workings of the Public Employment Program (PEP) that was created by the Emergency Employment Act (EEA) of 1971.

The EEA authorized $750 million for FY 1972 and about $1.2 billion for FY 1973 to create public sector jobs for the twin objectives of (1) providing needed public services; and (2) helping to reduce unemployment, *especially of disadvantaged hard-to-employ poor people*. Has the PEP achieved its objectives? Preliminary evaluative studies conclude that it probably has not. And although the data currently available for evaluative purposes are skimpy, the two sources that have reported lukewarm evaluations—Sar Levitan and the National Urban Coalition—are not enemies of federal manpower programs.[4]

In practice, local governments utilized part of the PEP funds to ease their own tax burdens. In other words, some unknown (but possibly very large) percentage of the program's 150,000 slots went to fill posts that would have been funded out of local borrowing or taxes in the absence of federal funds. Also, not surprisingly, the characteristics of those actually employed did not reflect characteristics of the disadvantaged working poor population. For example, fully 78 per cent were at least high school graduates, including many old, retired military officers who slipped in under a veterans' preference clause that was supposed to apply to Vietnam veterans only.

In short, the current small-scale public employment program is in all likelihood a failure in attaining either the objective of reducing the unemployment of the poor or in creating a net addition to local public services.

To be fair, one should note here that the EEA of 1971 created a public employment program that is a far cry from the program urged by the more vigorous proponents of the public job creation approach to poverty. The Nixon administration opposed the concept of public employment to combat poverty from the outset. Initial forms of the legislation put forth by Democratic senators were vetoed; thus the existing bill's structure and provisions reflect the compromise that came out of a partisan struggle: inclusion of the word "emergency" in the title; ample use of the modifier "transitional"; provision for an automatic shutoff of most of the funds when the aggregate unemployment rate dips below 4.5 per cent. Finally, and most important, it is a relatively small program (about 150,000 job slots in all) and was scheduled to terminate in two years.

However, the failure of PEP apparently has signifi-

[4] See Sar Levitan and Robert Taggart, "The Emergency Employment Act: An Interim Assessment," *Monthly Labor Review*, June, 1972. *The Public Employment Program: An Evaluation by The National Urban Coalition*, The National Urban Coalition, 2100 M Street, N.W., Washington, D.C.

cant bearing on the potential of more ambitious programs. After all, the only important difference between the existing EEA and the proposals of liberal Senators is the size of appropriation involved. The language and criteria used in the large-scale bills proposed by the Democrats appear even less likely to insure that very poor people would actually end up in the newly created jobs.

ELEMENTS OF A POSITIVE PROGRAM

It is relatively easy to criticize existing programs and ideas. It is much harder to suggest wiser approaches. If large-scale public employment programs are not the answer to the poverty problem, then what is? The following program has four main parts. The first two deal with ameliorating the poverty of the older poor who are able (and do) work, while the last two cover two groups of the younger poor—disadvantaged male youth and young welfare mothers.[5]

A Realistic Role for Public Job Creation. As was noted above, some very small amount of the poverty problem is due to long term structural unemployment. There are a few older low-productivity workers who have either been marooned in a depressed area of the country or are victims of inflexible retirement systems of one sort or another. Whatever the cause of their inability to find work (even after a reasonable period of job search), their desire for work per se (as opposed to income transfers) is a legitimate concern of public policy and does create a demand for a *very small-scale* public employment program. However, in order to insure that this small-scale program reaches the long-term unemployed poor in practice, major changes in the administrative methods used to implement public job creation programs will be required.

Perhaps the most important administrative innovation will be to stop using simple measures of unemployment incidence as a basis for the geographical allocation of funds and individual eligibility. The EEA's allocation rule makes the amount a state gets a direct function of the number of unemployed individuals in the state regardless of their classification, either according to the reason they became unemployed or according to the duration of their unemployment. Although this simple-minded allocation might have been sufficient in the 1930's, when unemployment and poverty were largely overlapping, it can lead to inequitable allocations by area in the 1970's. Many relatively prosperous high-growth areas of the country (e.g., California) have had above average unemployment rates for the past 15 years. The reason for this phenomenon has nothing to do with poverty. Indeed, it has to do with something opposite to poverty—the migration of large numbers of (non-poor) people seeking to better their economic opportunities. In-migrants always experience above-average unemployment after they arrive in a new area. Thus, to insure that funds will actually be targeted on the structurally unemployed poor, legislative rules for area allocation and eligibility must utilize information on duration of unemployment, age, wage in last job, reason for becoming unemployed, and so on.

In a well targeted job creation program, further, the types of job slots created must be in line with the abilities of very low-productivity older workers. If the legislation mandates the creation of fairly high quality jobs (along with moderately high salaries), this will greatly reduce the probability that the poor will actually be hired to fill them. Such a mandate might also create serious inequities between the working poor in the private sector and those structurally unemployed poor who end up in the public jobs. In this regard, the success of the very small ($30 million) Operation Mainstream program in placing aged unemployed individuals in modest public jobs should be studied.

Income Supplements for the Working Poor. The Negative Income Tax (NIT) approach to alleviating the hardships associated with low income status is discussed elsewhere in this issue.[6] The working poor need more money income—that is their main problem. Any program that will simply place more money income at their command commends itself both on the grounds of cost-saving efficiency and on the grounds that it would cause the least amount of embarrassment for the working poor people.

Why has such a straightforward anti-poverty policy not been instituted? The main reason appears to be that mass uncertainty exists with regard to two issues: (1) would the existence of a negative income tax induce a large number of working poor people to reduce their work effort? and (2) would any negative income tax bill that was passed be *in addition to,* or a *substitute for,* the current rag-bag of in-kind income supplements that the working poor already receive? The results of large-scale work-incentive experiments will become available soon and should shed some light on the first question. The answer to the second question will involve clarification of just how to treat in-kind income (e.g., public housing, food stamps, medicare and so on) in our discussions of poverty lines and appropriate levels of income supplements. In the interest of a sane, consistent approach to the poverty problem, in-kind and cash income

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[5] Programs and policies for the rest of the poor—those who are unable to work because of non-labor-market related reasons—are not covered here.

[6] See the articles by Robert McNown, Larry Singell and Richard Pious.

In discussing social welfare reform in America, "a better understanding of European patterns and the forces contributing to their change over time will be useful."

Income Maintenance Policy in Sweden, Britain and France

BY MARTIN REIN
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THE UNITED STATES has embarked on a vigorous debate about welfare reform. However, with Congress' failure to pass the Family Assistance Plan (FAP) in 1972, the possibilities for reform in the short run have faded. But the intractable issues of equity, adequacy and administration, thrown up by the present system, will erupt again, and the pressure for change will reemerge in a different political context. A better understanding of European patterns and the forces contributing to their change over time will be useful.

This paper examines the development of European income maintenance policy during the post-World War II period. Three cash transfer programs are reviewed—social insurance, family allowances, and public assistance—for three European countries: Britain, Sweden and France.[1]

Nowhere was the enthusiasm for postwar social reform more evident in West Europe than in old-age pensions. [2] During or immediately after the war, authoritative commissions in most West European nations announced bold plans of change from the fragmented, inadequate pension provisions of the prewar period. The experience of war itself—particularly the solidarity which external attack almost always fosters—weakened opposition to "welfare state" improvements. In England, the wartime Beveridge Report was the basis for the retirement provisions of the 1946 National Insurance Act. In France, there was a similar burst of activity toward a more unified social policy and, in particular, toward a more adequate pension plan. In fact, the "general" French social security scheme set up in 1945 covered (for pension purposes) only employees of industrial and commercial firms in the private sector. In Sweden, steps were taken in 1946 to disassociate pensions from public relief when pension legislation was enacted to provide a "decent and dignified" floor of subsistence for all of Sweden's aged.

The pension schemes shared a common aim, to provide a floor of subsistence; therefore the precise determination of the floor was an immediate operational problem. The theory of income security required that pensions provide adequate subsistence, but what amount of pension would ensure the achievement of that goal? In England and Sweden, the explicit aim was to establish a benefit high enough so that aged pensioners did not have to turn to public relief.

How could the aim of a subsistence pension be achieved? Since every worker can become poor upon retirement, the state's social insurance scheme must provide both universal coverage and the same basic minimum protection to all. In Britain and Sweden, this meant flat-rate pensions; the same amount was to be paid out to all persons in the same category. How were the pensions to be paid for? Britain and Sweden accepted contributory insurance as the central concept. In Britain, each individual not only received the same amount, but he paid the same amount during the course of his working life. Sweden departed from this principle of strict egalitarianism. Contributions were based upon a tax that was proportional to income. In both countries, the contributions were supplemented by general taxation, but government contribution was substantially more generous in Sweden. The amount and form of these contributions were important; so was the preservation of the "contributory myth" that these payments purchased entitlement to benefits without a test of need.

[1] For a fuller but less updated analysis of these issues see T. R. Marmor, Martin Rein and Sally VanTill, "Post-War European Experience with Cash Transfers: Pensions, Child Allowances, and Public Assistance," in the President's Commission on Income Maintenance Programs, *Technical Studies* (Washington, D.C.: U.S. Government Printing Office, 1970).

[2] For a full analysis of the pattern of provision in each country see Carl Uhr, *Sweden's Social Security System*, Research Report No. 14, U.S. Department of Health, Education and Welfare (Washington, D.C.: U.S. Government Printing Office, 1966); Tony Lynes, *French Pensions*, occasional papers on Social Administration No. 21, 1967; and Sir John Walley, *Social Security: Another British Failure* (London: Charles Knight & Co. Ltd., 1972).

The French conception was somewhat different. First, France enacted earnings-related benefits from the start. Second, while coverage was universal in Britain and Sweden, the state scheme in France was limited to workers in private industry and commerce. This requires a brief elaboration. The self-employed and other workers refused in 1945 to participate in a simpler, universal, state scheme. The result is a complex system where the *régime général* (covering the majority of employees in private industry and commerce) coexists with a wide variety of other occupational schemes known as *régimes spéciaux* (self employed, agricultural workers, miners, civil servants and so on). These groups have in effect contracted out of the general scheme. The qualifying conditions for a contributory pension depend upon the particular scheme one is a member of, and hence no easy generalizations are possible. Third, the ideal of eliminating the means test was less crucial. After 1941, assistance and insurance principles were commingled in a program that was financed out of contributions and distributed through the social insurance machinery.*

What then was the general pattern of provision? Three features of the postwar pension plans can be identified. The common enemy was extreme poverty in old age, or "want," as Sir William Beveridge put it in 1942. The common fear was a continued reliance on means-tested poor relief. And the common means were substantial contributory pensions that the aged could feel they earned through a universal system of contributions during work.

Soon after the insurance legislation had been implemented, these countries came to realize how difficult it was to abolish poverty and to rely on public assistance for the aged through a flat-rate system of pensions. In Britain, since the contributions are flat-rate, their level is almost certainly modest, determined by the amount that the lowest wage-earners in the society are presumed able to pay. That means that flat-rate contributory schemes must over time call upon general taxation to finance larger benefits. Some general tax funds were indeed tapped to make up the difference between current pension resources and current obligations. The British economic situation was continuously precarious, and drawing upon substantial general taxation to pay for pensions was rejected. Indeed a budgetary ceiling was placed on governmental spending for pensions, and this placed an important constraint on the adequacy of subsistence pension levels. As a result, flat-rate contribution levels were set sufficiently high to finance all but about one-sixth of pension benefits in the first decade of operation. Britain's flat-rate pension policy was caught in a dilemma. There was a reluctance to raise current flat-rate contributions since the burden fell on the poor; raising central government contributions, given competing fiscal demands on the national governments, was an unacceptable alternative.

In Sweden, financing was less a problem than in Britain. Appropriations for the folk pensions came largely from general revenues and have from the start been more substantial. The proportion of total pensions paid out from general taxation varied from one-half to three-quarters. Three interrelated problems dominated the debate about pensions. First was how to maintain equity between those who received wages from working and those who acquired benefits upon retirement, in order to permit those who were out of the labor force to keep up with changes in the level of living of those at work, made possible by economic growth.

In addition to eliminating poverty, another problem emerged in Sweden—how to preserve the continuity in the level of income for the same worker as his source of income shifted from earnings to retirement benefits. It was believed that a new principle of earnings-related benefits was necessary to prevent a substantial decline in living standards, especially among skilled workers who did not receive private pensions. Whereas in the 1940's the reforms were directed at subsistence, in the 1950's and 1960's interest shifted to maintaining earlier life styles during retirement. There was also concern about how to implement a wage index and superannuation (earnings-related pensions) which widened the gap between existing pensioners and those newly retired.

In France, the limited benefit paid out in the general scheme led to the creation of additional or complementary means to supplement it (*régime complémentaire*). Managerial pensions set up in 1947 (for the *cadres*) were for some the model and depended on contributions from earnings above the general scheme's ceiling. Since 1956, when Renault set up a pay-as-you-go complementary scheme for its 50,000 workers, such pensions (comparable to our own corporate plans) have spread rapidly to cover the great majority of industrial and commercial employees in the private sector.

PROPOSALS FOR REFORM

There was general agreement in the late 1950's that the way to promote reform was to change the flat-rate schemes, moving toward wage-related pensions to sustain a former standard of living through pensions, not simply to guarantee subsistence. Two themes emerged in the course of this pension debate: what should be the income differentials between pre-retirement and retirement, and how could more adequate state pensions be achieved without threatening private insurance interests.

In Sweden, during 1956, a timetable for successive increases in the real value of pensions was developed

income over the ten-year period, 1958–1968. The principle behind this reform was to compensate current pensioners who did not enjoy the increased living standards enjoyed by those at work. In 1968, the scheme was extended for an additional ten years. Legislation calling for earnings-related benefits was passed in 1959. Its aim was to help maintain the continuity of life style in the transition to retirement. This supplementary pension enabled a worker to retire at 50 per cent of the average income earned during his best 15 years of employment prior to attaining the pensionable age of 67. The supplement, when combined with higher folk pensions, would provide a retirement pension of two-thirds of his past earning. The new program was to be state-administered, and only limited opportunities for contracting out into private occupational pensions were permitted. A 20-year transition period was called for before full benefits became payable. As a result, a large interim fund accumulated which, by 1970, had yielded a credit source comparable to if not larger than the entire commercial banking system.

For the person retiring at age 65 in France, the present *régime général* can provide him with pensions of 40 per cent of his average pre-retirement earnings if his pension is payable at full rate, which requires 30 years of contributions. Shorter periods of contribution yield lower pensions. Earnings over the last ten years of employment constitute, for purposes of computation, the pension base, an arrangement which benefits skilled workers more than the unskilled, whose wages decline as retirement approaches. Most complementary pensions provide pensions at 20 per cent of pre-retirement income. However, there is a minimum level below which no contributory pension can fall. The value of the minimum pension has not changed in the late 1950's. In 1956, the government introduced a new means-tested program as a way to provide an additional allowance to those at the minimum level (*allocation supplémentaire*). In France, there is a greater willingness to combine the insurance and public assistance principles and to create supplemental programs which fall somewhere between contributory means-tested welfare and assistance financed from general taxation.

In Britain, a basic pension reform has not yet been implemented. Labor's superannuation scheme just missed passage when the Labor government lost the election in June, 1970. The Conservative government has introduced a new bill, which will undoubtedly become law, but it has not yet been enacted. Both the Conservative and Labor schemes rely upon earnings-related contributions as the basic strategy to raise the flat-rate pensions in order to reduce poverty in old age and at the same time prevent an abrupt change in the standard of living enjoyed before and after retirement. They differ sharply over the way to resolve the basic dilemma in British pension politics: how to secure adequate state benefits without undermining private insurance interests. The state must either compete with the private sector or permit contracting out of the state scheme.

All three countries have recognized a common demographic pressure, excluded as unworkable a universal means-tested form of income maintenance, recognized that poverty is relatively defined and concluded that adequate pensions will never be provided out of flat-rate contributions and through uniform benefits. Hence, the turn to substantial earnings-related pensions. The Europeans have not tried to make their social insurance schemes more tidy, and to separate out the very poor for special treatment. They have abandoned the search for an "efficient," simple social insurance system that would give financial assistance to the worst-off in direct proportion to their need.

Attention to the problem of population growth has tended to obscure the contribution of family allowances as an income maintenance program for the alleviation of poverty. While the pro-natalist interest of the family allowance movement was especially important in facilitating the political implementation of allowances on a national scale, concerns about poverty preceded those of population growth. In France, for example, allowances were voluntarily introduced by French industrialists after the first World War to fill the gap between wages and living costs for workers with family obligations. In this sense, they were regarded as a social or moral wage, for they took account of need as well as of the value of labor in the market. To avoid discouraging employers from hiring married men with families, equalization funds were created to pool the risks among participating employers. These employer funds later became the major organizational framework for the development of French family policy. However, in France, fear about the declining birth rate was so important in public policy that even today family allowance policy continues to occupy a fundamental place in the whole pattern of income distribution; family size can have as great an influence on income as do earnings from work.

In the post-World War II development of Britain's family allowance policy, the relationship between family allowance and wage supplementation to promote vertical equity is most evident. As a policy to increase the birth rate, family allowances have played a subordinate role. Since 1955, the birth rate has risen sharply and continuously, a trend which apparently is not duplicated in many of the Western countries.

CHILDREN'S ALLOWANCES

In Britain, Sweden and France, children's allowances are universally available to all designated chil-

dren, irrespective of family income. The term "universal" needs to be qualified. In Britain, allowances are not paid for the first child, thus excluding from coverage unmarried mothers who have given birth to their first child. Thus the structure of benefits, rather than their level, inadvertently is biased in favor of certain family types. Children who go to work are also excluded. When both these limitations are taken into account, one-third of the children under age 18 are excluded from "universal" family allowances. Moreover, the allowance is treated as income and subject to tax. Sweden, by contrast, pays a uniform tax-free grant for all children.

One of the recurrent issues in income maintenance policy is to what extent universal schemes can maintain their value over time. None of the countries have automatically adjusted the value of benefits to a price or wage index (as is done in pensions). While the problem of erosion confronts all universal schemes, those which are contributory (social insurance) in form appear to have more flexibility in increasing benefit levels over time, partly because they need not depend solely on general taxation to raise benefits. A universal contributory scheme can also increase contribution rates and raise the income ceiling subject to a contributory tax. Perhaps for this reason the value of cash allowances for a family with three children relative to average wages during the post-World War II period in France experienced some general erosion. In France, the erosion was steady and uninterrupted in both the general family allowance scheme and in special allowances for single wage earners.

In Sweden, there was a pattern of erosion and restoration, but benefit levels failed to be restored to the high point they enjoyed in 1950. A debate arose as to whether children's allowances should be subjected to taxation or to income testing. Both proposals were rejected. As a substitute, a large means-tested housing allowance program was introduced in 1968, covering one-third of the population. However, children's allowances were also raised in 1964 and again in 1971 to take account of price changes, but no substantial improvement in real wages was produced by these increases.

In Britain the pattern of fluctuation is more dramatic. After 1953, there was a steady and sustained decline in the relative value of benefits. Consider the fluctuations in the value of family allowances for a family with four children in the past 12 years. In 1960, it was 9.6 per cent of average earnings, declining to its lowest point in 1966 at 6.9 per cent, then sharply increasing to 12.6 per cent in 1968, only to decline once again to 8.1 per cent in 1973.[3] To understand the sharp rise in the value of family allowances we need to comment on a new invention called claw-back. Claw-back was introduced in 1968 as a way to concentrate additional benefits in family allowances selectively among the poor. It operated so that the standard rate taxpayer, that is, a family paying 32 per cent of its taxable income in taxes, received virtually no benefit from these increases. This would include most of the British tax-paying public. This objective was accomplished by offsetting the 50 pence increase in family allowances with an equivalent reduction in the total personal tax allowance. In this way, the increase benefited in full those who were below the tax threshold and also benefited, at least in part, those reduced rate taxpayers who were paying taxes below the 32 per cent level. But since family allowances were subject to income taxes, higher benefits lowered the threshold at which earned income was taxed. The 1968 increase of £183 million in gross expenditures concentrated only £47 million on those families paying below the standard tax rate of 32 per cent.

By 1970, when the Conservatives took office, the changes that had been introduced in the tax structure virtually eliminated the scope within which the claw-back could concentrate additional resources among the poor. As a result of inflation, by October, 1971, the value of the benefits for a family of three children had declined to 6.1 per cent of average earnings, the lowest amount in the past 20 years. Not only has the value of the benefits relative to average wages declined, but the importance of children's allowances in relation to other cash transfers has also declined.

There is a wide variation in the value of family allowance benefits and hence the contribution they make to augmenting family income. They are lowest in England, where for the family with three children they amount to only 8 per cent of average industrial wages. In Sweden, they account for about 13 per cent of average wages, and in France for 39 per cent of average wages when the single wage allowance and the general family allowance schemes are added together.[4]

Of course, how these total expenditures are distributed is a function of legal regulations; benefits vary by the number, age, and order of children. In Sweden, all children are included and receive the same amount. In France, the first child is excluded from the general family allowance, but included in the single wage allowance. This single wage allowance is computed from a different wage base, but it covers about 90 per cent of those receiving the general allowance. Benefits vary with the age of the child. In Britain, the first child is excluded and the third and subsequent children receive more benefits than the second child.

There appears to be a shift in emphasis away from the traditional goal of promoting population growth.

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[3] *Hansard,* January 23, 1973.

[4] Inga Thorsson, "Children's Allowances in Sweden," in E. Burns, ed., *Children's Allowances and the Economic Welfare of Children* (New York: Citizens Committee for

In the area of unrestricted cash transfers for children, Britain alone has sought to increase the value of these benefits by a form of selectivity that will encourage more vertical equity. Other countries have used other family benefits for this aim. However, when family allowances are more broadly defined to include earmarked transfers (such as housing allowances and educational grants), these benefits are not limited to the poor, but are directed to the bottom one-third of the population.

Unlike the area of pensions, there appears to be a general willingness to permit erosion in the value of non-contributory benefits financed out of general taxation. When there is public interest in improving the economic position of poor families, the search for some form of selectivity emerges.

PUBLIC ASSISTANCE

The goals of public assistance programs in Sweden and France, as well as those of Great Britain, were influenced by the famous wartime Beveridge Report. This report argued that public assistance was to form the second and last line of defense behind the primary protection provided by social insurance and family allowance programs. Public assistance in its postwar form was residual, for it was to "meet all needs which are not covered by insurance." To avoid being competitive with insurance, it followed that assistance "must be felt to be something less desirable than insurance benefits." Public assistance was expected to play a significant role only in the transitional period, while insurance programs matured and extended their coverage. In the long run, assistance was expected to diminish in the postwar years, and ultimately to be restricted to those limited cases where social insurance was inapplicable or where "abnormal needs" made regular social insurance benefits insufficient.

Ideals and realities diverged. The modern program of public assistance has persisted in size since the early 1950's and grown in the late 1960's despite determined efforts to reduce it. While there was evidence of an immediate postwar decline when improved social insurance programs were implemented, the effect proved to be short-lived. In Great Britain, the proportion of the total population on public assistance grew from 4.6 per cent in 1950 to 8.0 per cent in 1971. The yearly proportion of the Swedish population receiving social assistance declined during the 1940's from 8.4 per cent in 1940 to 4.1 per cent in 1949. Thereafter, and until 1965, the rate remained stable at about 4.0 per cent. Since 1965, however, it has undergone a gradual rise, reaching 6.3 per cent in 1971—the highest level in 23 years. France, after an increase to 5.6 per cent in the early 1950's, is the only one of the three countries to have experienced a proportionate decline, which must be understood in context. The French social aid system largely distributes in-kind benefits. Means-tested cash programs for the poor exist outside of the traditional locally administered public assistance structure in national social insurance programs. If the numbers in receipt of the supplementary old age benefit (*allocation supplémentaire*) as well as means-tested unemployment assistance are added to those receiving public assistance proper, the total receiving these means-tested benefits is substantially increased. The proportions for 1963 are 3.5 per cent for public assistance only, and 8.6 per cent if *allocation supplémentaire* and unemployment assistance are included. The decline in public assistance recipients in France since the middle 1950's reflects not only the development of supplementary means-tested pensions and the continuance of unemployment assistance, but also a legislative decision to forbid certain types of public assistance supplementation and to limit the amount of assistance in relation to the value of family allowance.

Not only have the size of the public assistance programs increased substantially, but so too has their real value. This trend is clearest in Britain where national standards prevail. According to a government analysis in Britain, since 1958 the value of supplementary benefits for a married man with three children has exceeded the average *net* earning of married men with similar family size. Moreover, the benefit scale rates grew more rapidly than gross earnings for all adult male manual workers. The index for the supplementary benefit scale increased to 418 in November, 1970, compared with an increase in gross earnings to 412 in October of the same year (1948 = 100).[5]

In Stockholm, by contrast, from 1949 to 1968 the value of the basic benefits for a couple with two children failed to keep pace with average *gross* earning. The index for social help increased to 296 while earnings increased to 400. But the figures are not directly comparable because information on net earning is not available. Moreover, the leap forward in real value occurred after 1968. Since Stockholm introduced its welfare reform, popularly known as a "social wage," in 1970, we can expect that this situation may have improved in relative terms.

The more adequate and comprehensive the assistance system is, the more likely it will overlap with social insurance, especially when the insurance program fails to keep pace. The relative size of assistance and insurance benefits will crucially affect the size of the assistance program. Both Britain and Sweden

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Martin Rein's most recent books are *Social Policy* (New York: Random House, 1972) and, with Sar Levitan and David Marwick, *Work and Welfare Go Together* (Baltimore: Johns Hopkins Press, 1972).

[5] *Social Trends*, No. 2, 1971 (London: Her Majesty's Stationery Office, 1971).

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WEAKNESSES IN OUR WELFARE PROGRAM

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than one-half of the poverty level of income. The highest payable annual benefits exceeded the poverty line in only four states.

WHO PAYS FOR WELFARE?

The financing of public assistance programs (except general assistance) is shared by the federal government, the states and local governments. The federal share, paid out of general revenues, is based on the average payment to recipients in the state. For Old Age Assistance, Aid to the Blind, and Aid to the Permanently and Totally Disabled, the federal share in a state with Medicaid amounts to $31 of the first $37 plus 50 per cent to 65 per cent (inversely depending upon the per capita income of the state) of the next $38.

Federal payments to AFDC are much lower, and this is probably the reason for the large disparities in payments per recipient (see Table 2). Under AFDC, the federal government pays $15 of the first $18, and 50 per cent to 60 per cent of the next $14, depending upon per capita state income.[11] For AFDC benefits greater than $32 per month there is no federal contribution. The corresponding level for the other three programs is more than double this level at $75 monthly. On the average, the current federal share of all welfare payments is 57 per cent with states paying 32 per cent and localities the remaining 11 per cent.

While it is important to understand how much each governmental level contributes to the total welfare bill, it may be even more important to examine how individuals actually pay, through taxes, the ultimate burden of the welfare system. Federal payments for welfare are derived from general revenue sources, i.e., income tax receipts. The federal income tax is regarded as progressive; people with high income tend to pay a larger percentage of their income in taxes and pay their share of the costs of welfare.[12]

The situation with regard to state and local taxes is very different. Most state revenue is generated by receipts from sales taxes, and the bulk of local government money comes from property taxes. Both these taxes are highly regressive; they account for a larger percentage of the income of people with low incomes than of people with high incomes.[13] This means that low and middle income families pay the real burden of the welfare bill for state and local contributions (approximately 50 per cent). Income is being transferred from people with relatively low incomes to the poor.

While it is impossible accurately to integrate the effects in all three tax systems to determine the overall impact of high and low income taxpayers, it is likely that the regressiveness of state and local taxes tends to outweigh what effective progressivity exists for the federal income tax. If so, low and middle income earners actually bear the burden of our current welfare system. This, in itself, seems to justify some sort of welfare reform to eliminate the inequity currently imposed on people at the lower end and middle of the income scale.

It is clear that our current welfare system does not achieve its objective—that of alleviating poverty. Yet a great deal of money continues to be spent on existing programs. The total expense for welfare was $9.8 billion in 1971 and the projected cost for fiscal 1973 is $11.6 billion. In the 1974 federal budget, Congress allocated total expenditures of $10.5 billion. At present, President Nixon has impounded $1.5 billion of this total, thus reducing the amount of money allocated to an already inefficient program.

It is a mystery that we should continue to fund a system of programs which often leaves the recipient without sufficient aid; a system which transfers income from low and middle income families to the poor. Welfare reform is an obvious necessity.

[11] Levitan, *op. cit.*, p. 25.

[12] One of the better recent studies on this topic was prepared by Joseph Pechman of The Brookings Institution, who found that while the federal income tax was indeed progressive, the effective tax rates (those actually paid) for high incomes tended to be substantially below the nominal rates. See Joseph Pechman, "The Rich, the Poor, and the Taxes They Pay," *The Public Interest,* No. 17, Fall, 1969. It must be noted that some disagreement does exist with respect to whether or not the federal income tax is truly progressive. An alternative view can be found in John Gurly, "The Real Impact of Federal Tax Policy," *The National Tax Journal,* XX, 3, September, 1967.

[13] R. Netzer, *Economic and Urban Problem,* (New York: The Free Press, 1971).

THE FAMILY ASSISTANCE PLAN

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a large number of service type programs, which at best only indirectly benefit the poor, would not only reduce the problem of the high effective rate of taxation of welfare recipients, but also would release funds for an adequate income supplement with an even lower rate of taxation. But the administration chose the political expedient of guaranteeing that no welfare recipient would suffer a lower income under FAP. This may have been the ultimate cause of its defeat.

A GUARANTEED INCOME

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income tax system, particularly when it is compared with the current public assistance program or the fam-

ily allowance system discussed above. First, the simplicity of the idea is attractive. Either the Treasury, through the Internal Revenue Service, or the Social Security Administration could administer such a system at very modest cost.[10] Second, the negative tax is automatic in nature. Thus, if income falls, families automatically become eligible and, to the extent that the program is effective in eliminating poverty, the program would thus automatically wither away. Third, since the sole criteria for payments is need, measured in income and family-size terms, no other "means" tests would be required. Further, since for all practical purposes payments would be invisible, no social stigma would be attached. As discussed above, the structure of the plan allows for safeguards against work disincentive effects and also has the potential of bringing income levels of all poor families and unrelated individuals up to adequacy levels.

The program does have some disadvantages, and there are some knotty problems which need more study. Administratively, there is a question regarding the frequency of payments. Currently, tax refunds are made annually, which would create problems because the poor would need prompt and frequent payments. The more frequent the payments, the greater the administrative cost of the program and, hence, the greater the fraction of poverty-reduction funds that will not directly benefit the poor. Second, some people fear that fraud would be widespread and serious, although others doubt whether it would be greater than present tax evasion by the nonpoor. Nevertheless, attempts to control fraud would also increase administrative costs. Many other administrative problems must be worked out.[11]

Two remaining problems which might be mentioned here are associated with the negative income tax proposal. The first has to do with the divorce of social services from the cash payments. There are some experts on poverty problems who feel that counseling and other services providing intangibles to poor families are more effective if provided by the person who also supplies the cash to the family. A second, and related, question surrounds the role and existence of these services if a negative income tax were established. For example, Milton Friedman has argued that such a tax should, in fact, replace all other poverty-related services including welfare (and the social workers necessary to operate it), unemployment compensation, and social security. Such a move is seen as eliminating some currently inefficient systems; equally important, it would eliminate the paternalism which is associated with them.

SUMMARY AND CONCLUSION

It has been suggested above that although the United States is a country whose affluence is unique in human history, a substantial number of Americans are living in dire poverty. A major fraction of these people are poor due to no fault of their own. Thus, one-half to two-thirds of the poor are either children or people over 65 years of age who cannot work their way out of poverty. Many others are thrown into poverty as a result of one or more of the failures of the American social system, the two primary examples being unemployment and discrimination. In addition, it is also possible that existing poverty programs are structured so that they encourage poor people to accept their condition rather than providing the incentives to work their way out.

At any rate, there can be no doubt that some form of guaranteed annual income must be the first step in any responsible program to alleviate poverty in America. The broad choices open to American society seem clear: (1) this guarantee can either be large enough to allow individuals and families to work themselves out of poverty through investments in health, education, job training and other activities which will increase their productivity in the long run, or (2) income transfers can be set at lower levels, supplemented by other programs which are more adequately suited to eliminate poverty. To refuse both alternatives is to fail to accept the responsibility for some of the failures of a social system which has in so many ways been overwhelmingly successful. Among other achievements, it has produced enough affluence to make the moral choice to eliminate poverty possible.

[10] For example, in 1968, 10 per cent of the cost of welfare was administrative while administrative costs in Social Security amounted to only two per cent. See Kershaw, *op. cit.*, pp. 102–103.

[11] The interested reader should see Kershaw, *op. cit.;* Green, *op. cit.;* and James Tobin, Joseph A. Peckman and Peter M. Mieszkowski, "Is a Negative Income Tax Practical?" *Yale Law Journal,* Vol. 77 (November, 1967),

NATIONALIZING THE WELFARE SYSTEM

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tionalizing the system for the non-working poor.

(3) High payment levels and low offset rates are inefficient ways to aid the poor, since most of the costs go to supplement incomes of those who are not poor.

No fully nationalized system can escape these tradeoffs.[14] For that reason, these plans are not likely to be adopted. Instead, the federal government is more likely to develop, in incremental steps, a "floor" payment for the AFDC program which can be supplemented by state payments to maintain current benefit levels in the North and West, while raising levels in the South. At the same time, an offset formula must be developed that provides real incentives for the

[14] This article has simplified the tradeoffs to such an extent that readers may be left with the erroneous impression that a bit of tinkering can solve the problems. See

working poor, yet limits payments to those over the poverty line. These were the purposes of the Nixon Family Assistance Plan, and they are likely to be revived, albeit in different form, by a future administration in lieu of a fully nationalized system.

AGAINST A FEDERAL GUARANTEED EMPLOYMENT PROGRAM

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should both be counted in determining levels of need and program objectives. Thus, if the in-kind programs are to be retained, then the level of the cash-income supplement does not have to be nearly so high as if the in-kind programs are to be discontinued.

Information, Financing and Motivation for the Young. The government should refocus its entire manpower effort so that it deals exclusively with disadvantaged youth. A major strategic mistake of manpower policy in the 1960's was government involvement in problem areas in which it had no legitimate interest. Large numbers of non-disadvantaged adults passed through the portals of the MDTA[7] program. Many observers took this apparent demand as evidence of program effectiveness. However, subsequent follow-up studies failed to discover any impact of the training on the long-run earnings capacity of these "trained" adults. One can only conclude that the generous training allowances created the apparent demand for this program.

But this is not surprising. The private market sector is an efficient engine for getting much human as well as physical capital financed and produced. The only situation in which the private market mechanism could be expected to fail would be in the case of the disadvantaged youth who, because of lack of information, funds, and motivation, failed to make the requisite investment in human capital at the crucial early stage in life. This, then, should be the focus of manpower policy in the 1970's. Manpower policy should be integrated with policies toward high school that involve drop-out prevention, career counseling, and so on. In fact, it would probably be a wise strategy to drop the term "manpower" altogether. A better name for the overall program should be "Career Development Assistance." Its starting point should be the early years of high school and it should make available to the very young man a veritable avalanche of options including Job Corps, on the job training, two-year college, four-year college, migration assistance, marriage counseling, psychotherapy, and so on.

Young Welfare Mothers. The problem here is how to prevent these young girls from joining the welfare roles. The current manpower policy approach to welfare mothers (the Work Incentive Program), although it has increased the total amount of work effort among AFDC mothers, has not made a dent in either overall welfare costs or caseloads. The only realistic solution to the dependent children problem is prevention. Somehow programs must be devised to make a young girl growing up in the ghetto feel that she will be better off if she foregoes the welfare life style and opts for the standard middle-class life style, avoiding illegitimate births. What kind of a program will produce this result? This is one of the major challenges for social research in the 1970's.

7 Manpower Development and Training Act.

NEEDED: FULL EMPLOYMENT

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ethic and have the same aspirations as middle class people.[26] But for most of the poor, the work ethic has proven a sham. Even hard work does not enable them to live in decency.

It is cruel and senseless for a nation to talk about the work ethic while those in power discuss the need to increase unemployment. With a labor force of some 86 million persons, even a one percentage point rise in the unemployment rate condemns an additional 860,000 people to joblessness.

If we are to eliminate poverty, adequate income maintenance must be provided for those unable to work. But jobs are the best form of income maintenance for those who are willing and able to work. The nation must belatedly accept the concept proposed in the Full Employment Bill of 1945. *The federal government must guarantee the right to remunerative, full-time employment.* The federal government must provide meaningful public service jobs at wages that will enable workers to attain at least the BLS lower living standard if it is impossible to absorb them into the private sector of the economy. For affluent America to push its poor and its welfare recipients into menial, low-wage and dead-end jobs is the modern equivalent of sending the children of the "idle poor" to the textile mills.

Public service employment is not mere "make work." The much maligned W.P.A. produced plays, painted murals, and built swimming pools, bridges, viaducts, public buildings, water mains, parks, roads and streets and much more. Today, there is a critical need for public service workers in such fields as health, housing inspection, education, traffic control, urban renewal, sanitation, parks and recreation, and pollution control. Enactment of the Service Employment Act of 1972 (the Hawkins-Cranston Bill) would be a step in the right direction. If we finally acknowledge William Petty's discovery that the labor of the unemployed poor represents an unused national asset, the quality of their lives and the lives of all Americans can be substantially improved in the 1970's.

26 Leonard Goodwin, *Do the Poor Want to Work?* (Washington, D.C.: Brookings Institution, 1972).

SWEDEN, BRITAIN AND FRANCE

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have striven to eliminate the need for such supplementation through adequate pension provision, but the experience of the two countries has diverged sharply. In 1949, less than half of national assistance grants in Britain were supplementing retirement pensions. By 1966, the proportion had increased to 60 per cent. In Sweden, the proportion of the aged on social help declined as the 10-year plan to increase the real value of the folk pension took effect. By contrast, France has prohibited supplementation even where adequate provision has not been achieved.

Given the American preoccupation with work and welfare, a brief comment on work rules and earning in addition to the size of the welfare program and its value may be helpful. Registration for work is not a formal requirement in Britain or Sweden. Indeed, in Britain full-time employment disqualifies a family from Supplementary Benefits. By contrast, in Sweden one-third of the non-aged recipients are attached to the labor force.

POSTWAR REFORMS IN PUBLIC ASSISTANCE

Only Great Britain tackled the revamping of the old poor relief programs directly after World War II. In 1948, the old local poor law was replaced with a uniform system of national assistance directly administered by the central government and financed from global taxation. Neither Sweden nor France has implemented so extensive a reform. The French produced a significant reform of their system in 1953–1955, while the Swedes waited until 1956 and then acted again in 1970. Everywhere, poor relief was given a new name through reform legislation. The new nomenclature, it was hoped, would make postwar assistance less reminiscent of the harshness of earlier times. The new term in Sweden is *Social hjälp,* in France, *L'Aide Sociale,* and in Britain, National Assistance, renamed Supplementary Benefits in 1967.

A reform of administration as well as language developed. In Britain, in 1967, public assistance was administratively integrated with social insurance; a vigorous campaign was launched to assure that those eligible for benefits would receive them; eligibility determination was simplified and discretion in establishing entitlement was reduced. Sweden attempted to follow the British example of central administration but was thwarted by the resistance of local authorities, who feared a diminution of their powers. The Swedish law of 1956 left the local authorities with administrative and financial responsibility. Centralization of administration and financing has proceeded even less in France. The French reforms of 1953–1955 are still criticized for their attempt to centralize and thus stifle "local initiative."[6]

The French system differs significantly from both the British and Swedish schemes. In April, 1962, non-contributory social security benefits were substantially increased above the assistance levels, and assistance payments were no longer payable to those receiving social security benefits. As a result, *l'aide sociale* is no longer a major source of income for the aged. It now distributes in-kind benefits primarily for medical care and rent allowances, and it is also responsible for the organization of institutional and domicilary services.

Assistance policy continues to evolve. Major changes in policy were initiated during the 1970's in Britain and Sweden. The Family Income Supplement (FIS) was adopted in Britain in December, 1970. It is a major extension of means-tested cash benefits. The program is designed for families with children if the head of the family is in full-time work, 30 hours or more per week. To insist on the principle that benefits be paid only to the fully employed departs from most insurance and welfare programs which typically pay benefits only when work is interrupted. The Family Income Supplement is a form of negative income taxation. A "prescribed amount" is fixed for families of different sizes. The amounts were increased by amending regulations in April, 1971. The amount was set at £18 weekly and raised in March, 1972, to £20 for a one-child family. Every additional child received an added £2. The state makes up half the difference to those whose earnings are below this figure, up to a maximum of £5.

In Stockholm a new guaranteed income, a "social wage," became law in 1970. The Stockholm reform dramatically shifted attention away from individual discretionary budget items in a welfare grant toward a standardized global budget for those in receipt of aid. Basic norms are established for the aggregate living expenses (except housing) of various family types. These norms are then adjusted automatically to changes in consumer prices. Thus, instead of separate determinations for food, clothing, utilities, and so on, a single standard grant is dispersed to ensure that the grant is inflation-proof. The grant is expressed as a percentage of the National Insurance "basic sum"—a monetary construct adjusted periodically to price changes and used as the standard for almost all income support programs. The Stockholm reform spread to other Swedish communities so that by 1973 about one-fifth had realigned their assistance programs in this way.

CONCLUSION

What general observations does this comparative

[6] Jacques Georgel, "L'Aide Sociale Départementale," *Droit Social,* November, 1961, p. 547.

review of post-World War II developments in income maintenance policy suggest? Three broad conclusions are proposed.

First, the interrelationships between administratively segregated programs which serve broadly similar objectives come in time to be recognized as instruments for future policy reform. How to link occupational pensions tied to work and/or purchased in the market through private carriers on an earnings-related basis and the flat-rate, state-administered, contributory pensions became the subject for a vigorous and prolonged debate in Swedish and British policy as attempts were made, although inspired by different motives, to increase the real value of these state pensions.

The interrelations between the tax system which made benefits available in the form of tax exemptions for middle income families with children and the social service system which allocated direct payments for family allowances was understood when Britain introduced claw-back as a means of selectively increasing the value of family allowances so that added benefits were concentrated among low income families. This relationship had earlier been accepted in Sweden during the 1940's when child tax exemptions were eliminated and children's allowances not subject to income tax were introduced for all children.

Finally, public assistance as direct cash payment, allocated on an income-tested basis, cannot be understood in isolation from the broader family of means-tested programs of which they are a part. For example, income-tested housing allowances for the aged and public assistance are alternative ways to meet similar needs. In Sweden, a separate income-tested housing allowance for the aged has contributed to the reduction of the proportion of the aged dependent upon social help; in Britain, Supplementary Benefits pay rent for virtually all pensioners in receipt of these benefits. It is largely because of housing allowances that only five per cent of all aged persons in the population received social assistance. In Britain, where the further extension of selectivity (means-testing) is an important political issue, the "poverty trap" has become a subject of debate. Should the poor pay higher marginal tax rates, when all means-tested programs and other tax incurments are taken into account, than the rates paid by high income families?

Second, policy is always dynamic and therefore never fully settled. The aims of policy are equally dynamic. Pension policy objectives have evolved from meeting subsistence needs to providing opportunities for the continuity of life style in retirement. Horizontal equity issues dominated the early debates when the goal of increasing the birth rate took center stage, but these issues slowly gave way to concerns about relieving family poverty (vertical equity). Welfare policy shifted from its earlier preoccupations with less eligibility, a doctrine which held that those on welfare should not be better off than those at work, to the ideal of entitlement by right to non-stigmatized benefits which assure individuals in need a continued sense of membership in society.

Finally, cherished ideals that provided the motor of change in the postwar period failed to be fully implemented. Policy was forced to come to terms with a new reality—the growth of public assistance to levels similar to those prevailing in the United States, where welfare is accepted as a national catastrophe. The broad reliance upon means-tested programs has continued to grow as well. But the process is dynamic: as means tests decline in one area, they develop in another. For example, tests of need for social insurance benefits have slowly surrendered to the principle of univeral entitlement (except in France); while new means tests have been developed for the working poor—Family Income Supplements in Britain and housing allowances for families with children in Sweden. Means-testing may also grow if previously settled policy in favor of universal provision is reversed. Some benefits formerly distributed without a test of need at the point of receipt of benefits (like family allowances) are in some countries now subjected to a test of need (Britain). The principle of selectivity for children's allowances has been considered and rejected in Sweden and is still under review in France. The future growth of means-testing in this area remains unclear.

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THE MONTH IN REVIEW

A CURRENT HISTORY chronology covering the most important events of June, 1973, to provide a day-by-day summary of world affairs.

INTERNATIONAL

Central Treaty Organization (CENTO)

June 11—In Teheran, U.S. Secretary of State William P. Rogers discusses U.S. and Soviet arms sales to Persian Gulf countries at a 2-day ministerial conference of the Central Treaty Organization, a regional security system involving Turkey, Iran, Pakistan and Britain.

Disarmament

(See also *U.S., Foreign Policy*)

June 8—Preparatory talks conclude in Helsinki, Finland, with a final agreement on participating members for a European security conference on July 3.

June 12—American-Soviet talks in Geneva, Switzerland, on limiting strategic arms adjourn so that the negotiators will be available for the American-Soviet talks in Washington, D.C.

International Court of Justice

(See also *Australia; New Zealand*)

June 22—The World Court asks France to refrain from further nuclear testing in the South Pacific while a judgment on the legality of the tests is made. France has refused to accept the Court's jurisdiction.

International Monetary Crisis

June 4—In its biggest 1-day plunge in recent months, the dollar drops 1 and 2 per cent against leading European currencies, as the price of gold continues to soar.

June 15—The dollar drops to a record low in West Germany, Amsterdam and London and declines throughout Europe; the price of gold moves up to $120.25 an ounce in both London and Zurich.

June 29—The West German government increases the value of the mark by 5.5 per cent against other European currencies; the revaluation sets off a new wave of dollar sales.

Middle East

(See also *Intl, United Nations*)

June 1—President Suleiman Franjieh of Lebanon holds a reconciliation meeting with chief Palestinian guerrilla leader Yasir Arafat.

June 3—Israel frees 56 Syrian and Lebanese prisoners of war in return for 3 captured Israeli pilots in the 1st mutual exchange of prisoners in 3½ years.

June 5—Israel's Chief of Staff, Lieutenant General David Elazar, denies the accusation made yesterday by the Syrian Defense Ministry that the released Syrian prisoners of war had been tortured by the Israelis. The accusation followed a similar charge against the Syrians made by the released Israeli airmen.

Kuwait stresses that her projected purchase of $500 million in arms from the West is for her defense and protection of oil resources.

June 7—In a military communiqué broadcast by the Damascus radio, Syria charges that Israeli jets twice tried to invade her air space, but were chased away by Syrian planes and ground fire.

June 14—President Anwar Sadat of Egypt completes 2 days of meetings with Syrian President Hafez al-Assad on the Middle East situation and on relations between Lebanon and the Palestinian guerrillas. President Sadat held talks earlier this week with President Muammar Qaddafi of Libya.

North Atlantic Treaty Organization (NATO)

(See also *U.S., Foreign Policy*)

June 15—The NATO foreign ministers conclude their 2-day meeting in Copenhagen with an agreement to review NATO's political, economic and military arrangements.

United Nations

June 1—North Korea obtains observer status at the United Nations European headquarters in Geneva, having been admitted to the World Health Organization in May.

June 6—Debate opens in the Security Council on the Middle East conflict as Egypt and Israel restate their views.

June 9—*The New York Times* reports that the United Nations Development program spent a record $274 million on 6,000 projects in 135 countries and territories in 1972.

June 12—The Soviet Union, Iran, Morocco, Guinea and Yugoslavia demand that Israel withdraw from the territories occupied during the 6-day war, as the Security Council continues its review of the Middle East conflict. Israel responds that direct negotiations between the parties involved must precede troop withdrawals.

June 14—Before the Security Council, the U.S. representative voices support for the Israeli position and rejects the Arab demand for Israeli troop withdrawal as a precondition to talks.

June 15—The Security Council concludes 8 days of debate on the Middle East and recesses for a month.

The Council votes, 14 to 0, to extend for 6 months the U.N. peace-keeping unit in Cyprus, which has served for 9 years.

June 22—The Security Council unanimously recommends that the 2 Germanys be admitted to U.N. membership. (See also *Germany, Democratic Republic of.*)

War in Indochina

(See also *U.S., Foreign Policy*)

June 4—New Communist attacks in southeastern Cambodia and U.S. B-52 bombings begin again after a week's lull.

June 5—The U.S. presidential adviser on national security affairs, Henry A. Kissinger, accompanied by White House press secretary Ronald L. Ziegler, arrives in Paris for talks with North Vietnamese leader Le Duc Tho.

June 9—Fighting in South Vietnam is reported to be at the highest level since mid-February.

June 13—The United States, North Vietnam, South Vietnam, and the Vietcong sign an agreement to improve enforcement of the Vietnam cease-fire accord of Jan. 27, 1973. The 14-point document, worked out by Kissinger and Tho, restates earlier provisions and calls for an end to all fighting in Vietnam on June 15, the cessation of U.S. reconnaissance flights over North Vietnam, the re-

sumption of U.S. minesweeping, the determination of the 2 South Vietnamese parties of their areas of control "as soon as possible" and the resumption of talks on U.S. economic aid to North Vietnam.

June 16—Fighting continues to break out in South Vietnam. South Vietnam has reported 108 violations of the second cease-fire in the first 24 hours since it became effective.

June 19—The South Vietnamese army holds the largest armed forces day parade in the history of the country, just 5 days after the agreement on the cease-fire.

June 24—A 200-truck supply convoy arrives in Pnompenh from Kompong Som without harassment. Fighting continues 15 miles from Pnompenh and around several large towns.

June 26—U.S. planes bomb to support government troops as heavy fighting continues around Pnompenh.

June 30—Heavy fighting is reported along the Mekong River and several roads leading to Pnompenh.

ARGENTINA

June 14—President Héctor J. Cámpora warns guerrilla leaders to stop terrorist threats against American and other companies.

June 15—The new government orders 7 foreign-owned banks returned to Argentine control.

June 20—Ending 18 years of exile, former President Juan D. Perón returns to Argentina accompanied by President Héctor J. Cámpora. Over 1 million people have gathered to greet him, but an outbreak of violence among the spectators forces his plane to land at a different airport.

June 21—In a televised broadcast, Perón addresses the nation and calls for unity. The number of deaths from the violence that greeted him upon his arrival has climbed to 20, and the number injured to 400.

AUSTRALIA

(See also *Intl, Intl Court of Justice; New Zealand*)

June 6—Concluding a 4-day visit to India, Prime Minister Gough Whitlam issues a joint communiqué with Prime Minister Indira Gandhi of India; they state that their countries will work for a "zone of peace" in the Indian Ocean. Whitlam says he has asked for a revision of the 1963 agreement with the United States on American bases on Australia's Northwest Cape.

June 23—The Australian government announces that it will send ships near the French nuclear testing ground to protest French tests in the South Pacific area.

BANGLADESH

June 7—Prime Minister Mujib Rahman and his associates declare that war crime trials against 195 Pakistani prisoners will take place some time before the end of September.

BRAZIL

June 18—The President, General Emílio G. Médici, announces that General Ernesto Geisel, head of the state oil monopoly, has been chosen by Brazil's military leaders as the presidential candidate of the Alliance for National Renovation, the government party. The election is scheduled for March 15, 1974.

CAMBODIA

(See *Intl, War in Indochina*)

CANADA

June 25—Queen Elizabeth and Prince Philip arrive in Canada for a "people tour" through the country.

CHILE

June 20—Thousands of physicians, teachers and students go on strike to protest President Salvador Allende Gossens' handling of the 63-day-old copper workers' strike at the nationalized Teniente mine.

June 21—Gunfire, bombings and fighting erupt. Strikes protesting and supporting President Allende's pro-Marxist government are held. Allende declares that "civil war must be avoided."

June 26—In Santiago, 500 wives of striking copper miners, joined by anti-government students and militants, demonstrate in favor of miners' demands for higher wages. A 10-member delegation of the wives' group meets with President Allende.

June 29—Rebel troops attempt to take control of Santiago before they are routed by armed forces loyal to Allende. A state of emergency is decreed.

CHINA

(See also *France; United Kingdom, Great Britain*)

June 26—The U.S. liaison office in Peking formally opens with ceremonies attended by U.S. liaison chief David K. E. Bruce.

COSTA RICA

June 22—A Costa Rican judge refuses a U.S. request for the extradition of Robert L. Vesco, a New Jersey financier who allegedly contributed $200,000 to U.S. President Nixon's reelection campaign in order to influence a Securities and Exchange Commission investigation into Vesco's affairs.

CZECHOSLOVAKIA

(See *Germany, Federal Republic of*)

EGYPT

(See also *Intl, Middle East, United Nations*)

June 4—President Anwar Sadat crosses the Suez Canal to inspect Egyptian front-line troops at the edge of Israeli-occupied Sinai in a symbolic gesture, the 1st such crossing since the 6-day war in 1967.

FRANCE

(See also *Intl, Intl Court of Justice; Australia; New Zealand; U.S., Foreign Policy*)

June 10—Foreign Minister Chi Peng-fei of China arrives for a 3-day visit.

June 22—West German Chancellor Willy Brandt and French President Georges Pompidou end 2 days of their twice-yearly talks in Bonn.

June 26—Soviet Communist party leader Leonid I. Brezhnev arrives in Paris for 2 days of talks with Pompidou.

Brezhnev informs Pompidou of the nature of his talks with U.S. President Nixon.

GERMANY, DEMOCRATIC REPUBLIC OF (East)

June 13—The East German Parliament ratifies unanimously a treaty normalizing relations with West Germany, which will go into effect on June 21. The treaty also permits the 2 Germanys to submit applications for membership to the United Nations, which East Germany did yesterday.

June 20—East German Communist party First Secretary Erich Honecker and Polish Communist party First Secretary Edward Gierek end 3 days of talks on promoting closer cooperation.

GERMANY, FEDERAL REPUBLIC OF (West)

(See also *Intl, Monetary Crisis; France; Israel*)

June 6—Completing West German ratification of the treaty with East Germany to normalize relations, President Gustav Heinemann signs it. The appointment of Günther Gaus as West Germany's first official representative to East Germany is announced.

June 12—At a special party congress, the Christian Democrats elect Helmut Kohl as their new national chairman.

June 20—In Bonn, Czechoslovak and West German foreign ministers initial a treaty on mutual relations. The treaty declares the Munich agreement of 1938 (giving the Sudetenland to Germany) to be void, thus eliminating one of the blocks to better relations.

GREECE

June 1—Premier George Papadopoulos announces the abolition of the monarchy, deposing exiled King Constantine II of the Hellenes. He declares Greece a "presidential parliamentary republic," and assumes the title of "Provisional President of the Republic." The people will be able to approve the changes in a referendum before July 29. General elections will take place before the end of next year.

June 2—In a news conference in Rome exiled King Constantine II pledges that he will return to Greece.

Security officers continue to arrest supporters of the King; 4 senior officers of the armed forces resign.

June 8—The government announces that Provisional President George Papadopoulos, running unopposed, will be elected as Greece's 1st President at next month's referendum.

June 15—The government names General Odysseus Anghelis, the chief of the armed forces, as Vice President of the new republic.

ICELAND

June 7—A British warship and an Icelandic vessel collide off Iceland's coast, where the 2 countries have clashed over fishing rights. Each blames the other.

June 12—In a letter to the U.S. ambassador, Iceland requests revision of the 1951 defense treaty by which American forces are stationed at the Keflavik air base.

INDIA

June 12—The government takes over the administration of Uttar Pradesh, the third state to come under federal control in a year.

June 17—Prime Minister Indira Gandhi arrives in Canada for an 8-day visit.

IRELAND

June 11—Ireland grants landing rights to American commercial airplanes at the Dublin airport.

June 24—Eamon de Valera ends his second term as President.

June 25—Erskine Childers is inaugurated as President in a ceremony in which Protestant and Roman Catholic church leaders demonstrate their unity. Childers promises to work for harmony on this divided island; as President, he is committed to reconciliation with Northern Ireland.

ISRAEL

(See also *Intl, Middle East, United Nations*)

June 7—Chancellor Willy Brandt of West Germany arrives for a 4-day state visit in Israel.

June 8—Chancellor Brandt announces that Premier Golda Meir will make a formal state visit to West Germany.

June 17—Premier Golda Meir announces that she will run for reelection in October, 1973, in a reversal of her plans to retire at the end of her present term.

June 24—The Israeli government imposes a 3-month price freeze and orders an average 5 per cent cost-of-living increase for workers.

ITALY

June 12—Premier Giulio Andreotti and his Cabinet resign.

June 20—President Giovanni Leone asks former Premier Mariano Rumor to form a new Cabinet.

KOREA, DEMOCRATIC PEOPLE'S REPUBLIC OF (North)

June 25—In response to a South Korean proposal that the 2 Koreas be admitted to the U.N., President Kim Il Sung declares that North and South Korea could join the U.N. as a "North-South confederation."

KOREA, REPUBLIC OF (South)

June 12—North and South Korea resume talks to improve their relations.

LEBANON

(See also *Intl, Middle East*)

June 14—Premier Amin Hafez resigns in an action expected after 2 ministers resigned 2 days ago.

June 21—President Suleiman Franjieh asks Takieddin al-Solh, a former minister of the interior, to serve as Premier.

LIBYA

(See also *Intl, Middle East*)

June 3—Colonel Muammar Qaddafi, the President of Libya, leads a cultural-revolution takeover of radio and television stations in the cities of Tripoli and Benghazi.

June 7—Revolutionary committees take over most schools, hospitals and banks.

June 11—Attacking U.S. policy toward Israel, Colonel Qaddafi announces the nationalization of an American oil company.

NEW ZEALAND

June 23—The New Zealand government announces that it will order its ships to sail near the French nuclear testing grounds to protest French tests in the South Pacific.

RUMANIA

June 26—President Nicolae Ceausescu begins a 5-day official visit to West Germany, the first such trip by an East European head of state.

SPAIN

June 8—Generalissimo Francisco Franco, Spain's leader for more than 30 years, relinquishes the role of Premier to his aide, Admiral Luis Carrero Blanco, but remains Chief of State as well as Commander in Chief of the Armed Forces. Admiral Carrero Blanco will formally become "President of Government" or Premier tomorrow.

SWEDEN

June 6—Parliament approves by consensus a new constitution, replacing that of 1809. It removes the King's residual powers, lowers the voting age to 18, and guarantees citizens the right to hold demonstrations.

U.S.S.R.

(See also *France; U.S., Foreign Policy*)

June 8—The Soviet government agrees to a proposal for a $10-billion, 25-year natural gas transaction with the Occidental Petroleum Corporation of the U.S., according to an announcement by its chairman, Armand Hammer. The purpose of the tentative agreement is to supply Siberian natural gas to American consumers on the West Coast.

June 27—Brezhnev returns to Moscow after meeting with French and American leaders.

UNITED KINGDOM

Great Britain

(See also *Canada; Iceland*)

June 9—Diplomatic sources report that Prime Minister Edward Heath has accepted an invitation to visit China, extended by Chinese Foreign Minister Chi Peng-fei, who is in London for talks with British officials. Chi's visit to London and Heath's anticipated visit are the 1st diplomatic visits between Britain and China since 1949.

June 14—Queen Elizabeth II formally approves legislation giving the Bahamas full independence on July 10.

Northern Ireland

June 25—Three men are killed when a bomb they are carrying explodes prematurely. The number of deaths due to Protestant-Catholic violence since the fall of 1969 reaches 834.

June 28—Elections are held for a new Assembly.

June 30—Final returns in the election for the new 78-member Assembly are reported. Nearly two-thirds of the seats will be held by groups committed to the British white paper, under which the Protestant majority and Catholic minority will share political power.

UNITED STATES

Civil Rights

June 12—The U.S. Court of Appeals for the District of Columbia Circuit upholds a court order directing the enforcement of school desegregation in 17 states.

A federal appeals court, in a 6-to-3 decision, orders the busing of pupils between Detroit and the suburbs to achieve racial balance in the schools.

June 14—Morton H. Halperin, a former staff member of Henry A. Kissinger's, special adviser to the President on national security affairs, files suit against Kissinger and other White House officials for wiretapping his telephone.

Economy

(See also *Government*)

June 1—The Labor Department reports that the unemployment rate in May remained at 5 per cent for the sixth consecutive month.

June 8—The Federal Reserve Board raises the discount rate .5 per cent to 6½ per cent, a 50-year high.

June 29—The Federal Reserve Board raises the discount rate from 6½ to 7 per cent and orders that bank reserves be increased by $800 million to restrict lending.

Foreign Policy

(See also *Intl, Cento, Disarmament, NATO; U.S., Government*)

June 1—President Richard Nixon and President Georges Pompidou of France conclude more than 6 hours of meetings in Iceland.

June 5—Secretary of State William P. Rogers announces that President Nixon, in a change of policy, has authorized the sale of F-5E jet fighter planes to Argentina, Brazil, Chile, Colombia and Venezuela.

The Commerce Department announces a new shipping agreement with the Soviet Union providing for higher payments to U.S. ships carrying agricultural products to the Soviet Union.

June 14—Rogers assures the NATO ministerial meeting in Copenhagen that President Nixon will not make any decisions with the Soviet Union detrimental to NATO countries.

June 18—Soviet Communist party leader Leonid I. Brezhnev is greeted by U.S. President Nixon on the White House lawn. Brezhnev declares that the U.S. and the U.S.S.R. "share one great goal, . . . a lasting peace for the peoples of our countries. . . ."

June 19—President Nixon and Brezhnev attend a ceremony at the State Department for the signing of 4 new Soviet-American agreements in the fields of agriculture, oceanography, culture and transportation.

Brezhnev hosts 25 Senators and Representatives at a luncheon in Washington. In response to queries about Jewish emigration from the U.S.S.R., he cautions that "any of you who wants to spoil good relations can make up bad questions. . . ."

June 20—Nixon and Brezhnev confer at Camp David, Maryland.

Treasury Secretary George P. Shultz and Nikolai S. Patolichev, Soviet Foreign Trade Minister, sign an income tax convention to relieve tax burdens of citizens of one country who live and work in the other.

June 21—President Nixon and Brezhnev sign an agreement on guidelines for their delegations at the current round of talks in Geneva on limiting strategic arms. The 2 leaders pledge to speed up negotiations for a permanent treaty to limit offensive strategic weapons "with the objective of signing it in 1974." They also sign a new agreement to increase cooperation in the development of peaceful uses of atomic energy, especially in regard to developing "highly efficient energy sources."

The Defense Department discloses that the U.S. is continuing to bomb heavily in Cambodia; about 140,000 tons of bombs were dropped there in March, April and May, 1973.

June 22—At a meeting at Blair House in Washington, D.C., Brezhnev addresses U.S. businessmen for 90 minutes; he urges increased Soviet-American trade and cooperation.

June 23—In Washington, D.C., Secretary of Transportation Claude S. Brinegar and Soviet Minister of Civil Aviation Boris P. Bugayev sign a formal agreement to increase airline service between the U.S. and the U.S.S.R.

At President Nixon's San Clemente, California, seaside estate, Brezhnev and the President discuss European security and the Middle East.

June 24—President Nixon and Brezhnev sign a final communiqué.

Brezhnev addresses the American people on national television on the advantages of peace and cooperation between the U.S. and the U.S.S.R. He is the first Russian leader to do so. In a 47-minute address, he declares that the U.S.S.R. seeks "to build relations of good will and mutually beneficial cooperation with all countries" which share that desire.

June 25—Brezhnev ends his visit to the U.S. after a night at Camp David, Maryland. Following a 21-gun ceremony, Brezhnev leaves for France. A 17-page joint communiqué is issued simultaneously in Washington and at San Clemente, California, hailing the talks for furthering better relations between the U.S. and U.S.S.R. Urging closer

consultation between the U.S. and the U.S.S.R., the communiqué announces that Brezhnev's invitation to President Nixon to visit the Soviet Union has been accepted.

Government

(See also *Costa Rica*)

June 4—Archibald Cox, the special prosecutor in the Watergate investigations, requests that the Senate's Select Committee on Presidential Campaign Activities delay its hearings for 1–3 months because the public hearings may make it difficult to prosecute and punish the guilty. Senator Sam J. Ervin, Jr. (D., N.C.), chairman of the committee, refuses.

Deputy White House press secretary Gerald L. Warren states that President Nixon talked frequently with former White House counsel John W. Dean 3d about the Watergate affair but that it would be "constitutionally inappropriate" to turn over logs of these meetings to investigators.

June 5—Former presidential assistant John D. Ehrlichman, in a deposition released today and given in a Democratic party damage suit against the Committee for the Re-election of the President, states that former Attorney General John N. Mitchell chose 3 sites for electronic bugging of the Democrats in 1972—Democratic National Headquarters in the Watergate complex, Senator George McGovern's headquarters in Washington and the Democratic national convention headquarters in Miami Beach, Florida.

The Senate Watergate committee votes unanimously to reject special prosecutor Cox's request to postpone the hearings and decides against acceleration of the hearings as recommended by 2 of its members—Senator Herman E. Talmadge (D., Ga.) and Senator Edward J. Gurney (R., Fla.).

Robert A. F. Reisner, a former administrative assistant to Jeb Stuart Magruder, former deputy director of the Committee to Re-elect the President, tells the Senate Watergate Committee that wiretap reports went to former Attorney General Mitchell and to H. R. Haldeman, former presidential chief of staff.

June 6—*The New York Times* reports that President Nixon approved the July, 1970, intelligence gathering plan after learning of its illegality; it was later rescinded because of the opposition of the late F.B.I. director, J. Edgar Hoover.

President Nixon appoints former Secretary of Defense Melvin R. Laird as his chief domestic adviser. General Alexander M. Haig, Jr., will retire from active duty to continue on a regular basis as White House chief of staff.

Hugh W. Sloan, Jr., former treasurer of the Finance Committee to Re-elect the President, tells the Senate committee that Dean and others tried to persuade him to resist testifying in a Miami trial related to the Watergate scandal.

The White House agrees to turn over to the Senate Watergate committee the logs of the President's conversations with Dean.

The government announces the dismissal of the charges against Daniel Ellsberg and Anthony J. Russo, Jr., in the Pentagon Papers case.

June 7—After a 6-week search, President Nixon names Clarence M. Kelley, police chief of Kansas City, Missouri, as director of the F.B.I.

Charles W. Colson, former special counsel to the President, reportedly tells federal prosecutors that Dean took an active role in the Watergate cover-up.

June 8—Attorney General Elliott L. Richardson turns over the investigation of the I.T.T. merger to special Watergate prosecutor Archibald Cox.

June 11—L. Patrick Gray 3d, former acting director of the F.B.I., reportedly agrees to testify without immunity in any Watergate criminal trials.

June 12—Chief Federal Judge John J. Sirica of the U.S. District Court refuses the request of John W. Dean 3d for immunity from prosecution for his grand jury appearance, but grants immunity to Dean and Jeb Stuart Magruder when they testify before the Senate Watergate committee.

Judge Sirica further rules that the court has no power to interfere with television and radio coverage of the Senate Watergate hearings.

Dean reportedly refuses to answer questions before the grand jury on the ground of possible self-incrimination.

Former Secretary of Commerce and chief fund raiser for President Nixon in the 1972 campaign, Maurice H. Stans, denies any Watergate role when he appears before the Senate committee investigating the Watergate scandal.

June 13—President Nixon freezes all prices for up to 60 days based on prices of the 1st week in June, promising "tighter standards" in Phase 4.

June 14—Jeb Stuart Magruder describes before the Senate Watergate committee his role and those of other officials including John N. Mitchell, John W. Dean 3d and H. R. Haldeman in the Watergate conspiracy; he does not implicate the President.

President Nixon announces the return to his staff of Bryce N. Harlow as counselor to the President.

The Senate votes, 67 to 15, to cut off all funds for U.S. military action in Indochina, 5 hours after Kissinger's request for more time for the administration to achieve a cease-fire in Cambodia.

June 18—The Senate Select Committee on Presidential Campaign Activities investigating the Watergate case postpones hearings for one week because of the visit of Soviet leader Brezhnev.

June 19—President Nixon announces that he will sign 3 bills authorizing expenditures for health, economic and airport development that will exceed his budget by $671 million for these programs. The bills will establish programs that President Nixon promised to eliminate or drastically cut. The President declares that this action is a "reasonable compromise" in the struggle with Congress to cut back federal spending.

June 20—In a Federal District Court in Washington, D.C., the Committee for the Re-election of the President is found guilty and fined the maximum $3,000 penalty for concealing a cash contribution of $200,000 from Robert L. Vesco, a New Jersey financier. (See also "U.S., Government," May 21, 1973, *Current History*, July, 1973, p. 48.)

June 21—*The New York Times* reports that E. Howard Hunt, Jr., received a final payment of $72,000 after threatening to disclose White House operations against Daniel Ellsberg. (See also "U.S., Government," May 11, 1973, *Current History*, July, 1973, p. 47.)

June 24—*The New York Times* reports that some food processors and canners have cut or plan to cut delivery of some food products whose prices were frozen at less than the price of the raw product. Shortages may result.

June 25—John W. Dean 3d, former White House counsel, appears for questioning before the Senate Committee investigating the Watergate scandal. He reads a 245-page statement. In televised hearings, Dean asserts that President Nixon was involved for 8 months in the Watergate cover-up without realizing "the implications of his involvement."

June 26—Dean tells the Senate committee investigating the Watergate affair that President Nixon's statement on May

22, 1973, denying any knowledge of the attempted Watergate cover-up is "less than accurate." Dean also declares that White House press secretary Ronald Ziegler did not know "the truth" when he denied White House participation in the break-in of Democratic National Headquarters at the Watergate complex or the cover-up.

President Nixon names Alvin J. Arnett as director of the Office of Economic Opportunity.

June 27—President Nixon vetoes a $3.3-billion supplemental appropriations bill that would also have cut off all funds for U.S. bombing in Cambodia through June 30, 1973.

The House of Representatives, voting 241 to 173, fails to override the President's veto by the necessary two-thirds vote.

The Senate approves, 67 to 29, an amendment to cut off funds for the bombing in Cambodia: it is attached to a bill to extend the ceiling on the national debt.

Dean gives the Senate committee investigating the Watergate case lists of several hundred names that the White House compiled of its opponents and political enemies.

A revised version of a White House memorandum, prepared for the use of the Senate Watergate committee and delivered to committee members last week, is read into the record during the hearings. The memorandum calls Dean the "mastermind" of the Watergate cover-up, and describes John N. Mitchell as Dean's "patron"; it indicates that Mitchell is responsible for the intelligence gathering operation that included the Watergate break-in. Dean interrupts the reading several times to rebut charges made in the memorandum.

In a U.S. District Court, Frederick C. LaRue, a special assistant to Mitchell at the Committee for the Re-election of the President, pleads guilty to conspiracy to obstruct justice because of his involvement in the Watergate cover-up.

At a news conference, Secretary of Agriculture Earl L. Butz and Secretary of Commerce Frederick B. Dent announce that the government will limit soybean and cottonseed exports to prevent shortages for domestic use.

June 28—Deputy White House press secretary Warren declares that the White House memorandum, read before the Senate Watergate Committee and prepared by Fred Buzhardt, Jr., special counsel to the President on the Watergate affair, does not represent the position of the President or the White House.

The Senate unanimously votes to confirm James R. Schlesinger as Secretary of Defense.

June 29—President Nixon sends assurances to Congress that U.S. military action in Cambodia will cease by August 15, 1973; if military action is needed after that, he promises to seek congressional approval. The House of Representatives and the Senate vote to delay the cut-off of funds for U.S. bombing in Cambodia until August 15, 1973.

June 30—The Senate and House of Representatives approve and send to the President 3 major bills: a 5.6 per cent cost-of-living increase in Social Security benefits, effective next year; an appropriations measure to allow federal agencies to operate through September 30, 1973, that includes a provision cutting off all funds for U.S. military action in Indochina on August 15, 1973; an extension of the $465-billion temporary federal debt ceiling until November 30, 1973.

Labor and Industry

June 13—George Meany, AFL-CIO president, joins other labor and business leaders in criticizing President Nixon's 60-day price freeze, announced today. (See also *U.S., Government.*)

June 28—The International Brotherhood of Teamsters and the trucking industry agree to a new 33-month contract providing for wage and benefit increases averaging 7 per cent a year.

Politics

June 25—Secretary General of the Communist Party, U.S.A., Gus Hall confirms that he met with Brezhnev last week in Washington.

Science and Space

June 18—The Skylab 1 crew sets a new record for space endurance after almost a full 24 days in its space station.

June 19—Two of the Skylab 1 astronauts walk in space outside their space station to collect exposed film.

June 22—The Skylab 1 astronauts splash down safely in the Pacific Ocean after 28 days aboard the first U.S. orbiting space station.

Supreme Court

June 4—"To encourage individuals injured by racial discrimination to seek judicial relief," a unanimous Court rules that lawyers who prosecute school desegregation lawsuits successfully "should ordinarily recover an attorney's fee unless special circumstance would render such an award unjust."

June 11—In a 4–4 vote, the Court upholds a lower court's decision prohibiting the Environmental Protection Administration from approving any state air pollution plan that would lower existing air standards.

June 21—In a 5-to-4 vote in 5 separate cases on obscenity, the Supreme Court decides that states may ban books, plays, films and magazines that "appeal to the prurient interest in sex" and that have no "serious literary, artistic, political or scientific value."

In a case involving segregated schools in Denver, Colorado, the Supreme Court rules that a Northern city school system containing "a substantial" segregated section will be regarded as having an illegal dual system. The case is sent back to the federal district court for a new hearing in which the Denver school board will have to prove that it did not deliberately set up school district lines to create segregated schools. The Supreme Court indicates that it will apply stringent desegregation standards to systems where racial segregation is achieved by social patterns.

June 25—Voting 6 to 3, the Supreme Court declares unconstitutional 2 New York state laws and 4 New York state programs providing financial aid to private schools, particularly Catholic parochial schools. A similar Pennsylvania statute is also invalidated.

URUGUAY

June 27—Under pressure from the military, President Juan M. Bordaberry and 2 Cabinet ministers dissolve the Congress and establish a Council of State in its place. Bordaberry will rule by decree.

June 28—Bordaberry dissolves Uruguay's 19 municipal councils.

A nationwide strike, called by the National Labor Confederation, is held to protest the dissolution of Congress.

June 30—Following the expiration of the government's deadline this morning for halting the strike, armed forces disperse striking workers. Leaders of the N.L.C. are arrested.

DIAN INCOME IN 1969
FAMILIES, By States

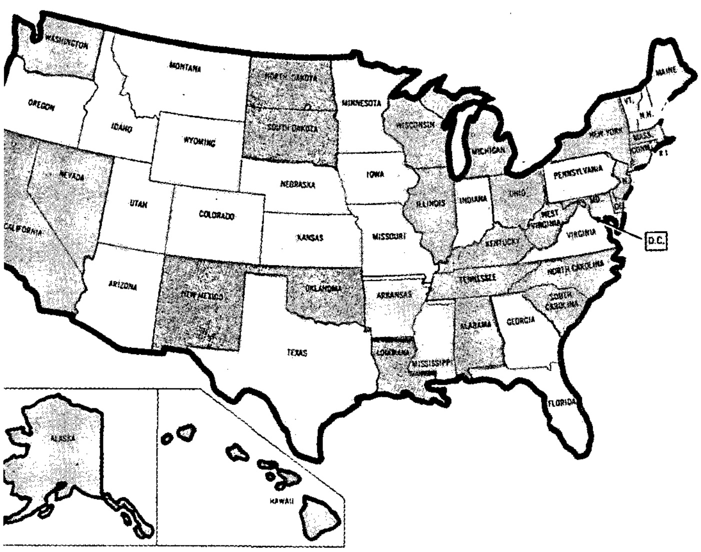
] $10,000 or more

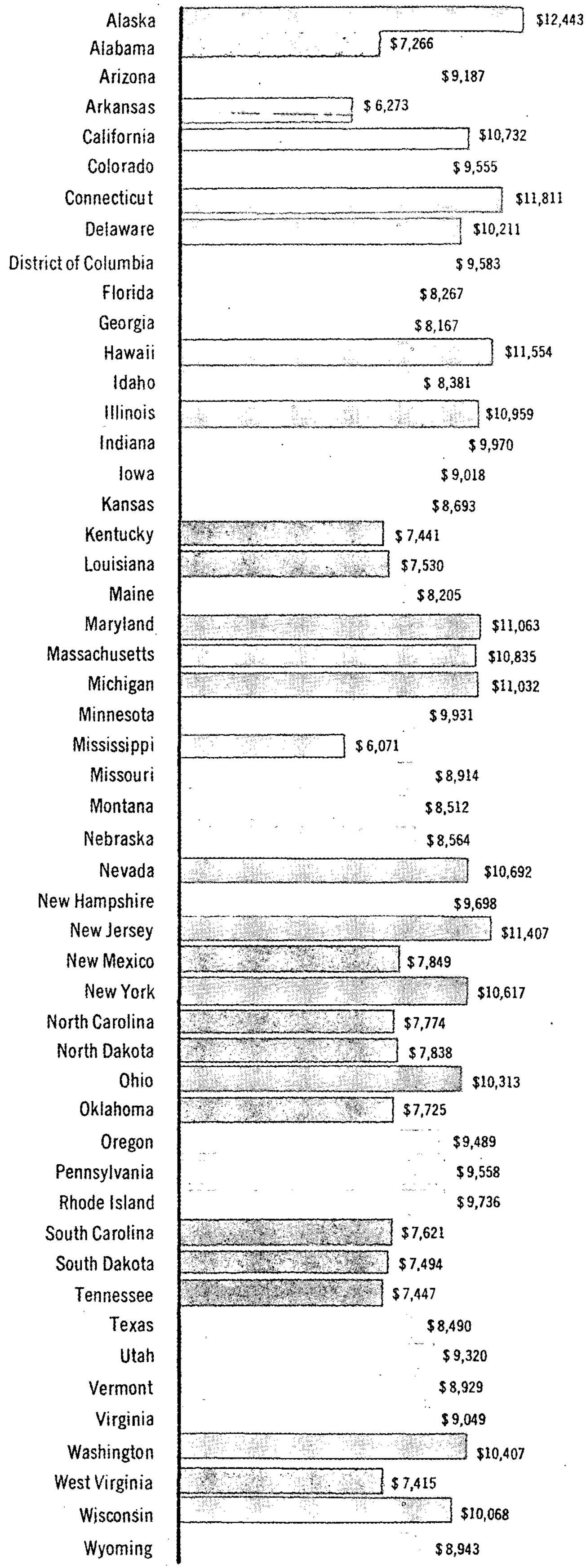
] $8,000-$9,999

] $7,000-$7,999

] Less than $7,000

TED STATES
RAGE-$9,590





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